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- 1 Illegal Forest Activities in Indonesia
- 1 The Problems of Thailand's Deep South
in a Southeast-Asian Context
- 1 Accumulating Democracy Deficits:
How Indonesia Moves Backwards
- 1 Sustainable and Relatively High Growth
- 1 Islam and Democracy: Some Problems of Democratization
in the Muslim World
- 1 Terrorism, Democracy and Security Sector Reform
in Indonesia
- 1 The Impact of Decentralization on Cluster Industry



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VOL. 33 NO. 2
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CONTENTS

ABSTRACTS

98 - 99

CURRENT EVENTS

- ❑ Illegal Forest Activities in Indonesia
Krystof Obidzinski

100 - 103

- ❑ The Problems of Thailand's Deep South
in a Southeast-Asian Context
Apichai Sunchindah

104 - 115

REVIEW OF POLITICAL DEVELOPMENT

- ❑ Accumulating Democracy Deficits:
How Indonesia Moves Backwards
Christine Susanna Tjhin and T.A. Legowo

116 - 132

REVIEW OF ECONOMIC DEVELOPMENT

- ❑ Sustainable and Relatively High Growth
Staff, Department of Economics, CSIS

133 - 145

ARTICLES

- ❑ Islam and Democracy: Some Problems of Democratization
in the Muslim World
Riza Sihbudi

146 - 168

- ❑ Terrorism, Democracy and Security Sector Reform in Indonesia
Anak Agung Banyu Perwita

169 - 182

- ❑ The Impact of Decentralization on Cluster Industry
Kacung Marijan

183 - 203

ABSTRACTS

ISLAM AND DEMOCRACY: SOME PROBLEMS OF DEMOCRATIZATION IN THE MUSLIM WORLD

By Riza Sihbudi

Until the end of the 20th century none of the countries —which are mostly dominated by Muslim population— exercised a fully democratic political system. No single Muslim country is considered to be a consolidated democratic state. As for Indonesia, democratization is still seen by some “fundamentalist” Muslim leaders as a non-necessary condition to protect and unify the Islamic community. The author argues that as long as there still exist disagreements among the Islamic leaders and thinkers on the relations between Islam and democracy, it will be difficult for democratic process to happen in the Muslim world. There are constraints for developing democratic political system in the Muslim world. This paper attempts to explore the debates on the problems of emulating democracy in the Muslim world

TERRORISM, DEMOCRACY AND SECURITY SECTOR REFORM IN INDONESIA

By Anak Agung Banyu Perwita

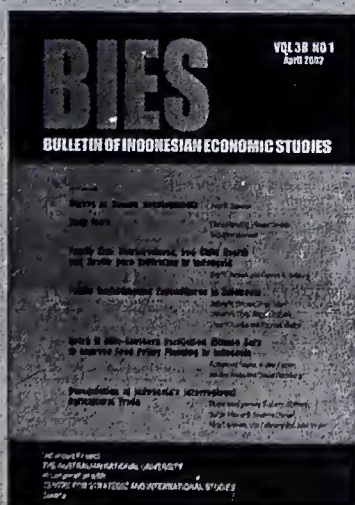
The process of security sector reform in Indonesia initially started after the fall of President Soeharto in May 1998. But the global war on terrorism, to a large extent, has also propelled the rigorous debate on security sector reform. For the reform to be successful it should take into account the rapidly changing domestic and international security context in any particular country. This article discusses the link between the issue of terrorism as a threat to security and the importance of security sector reform in Indonesia. The author argues that it will take a long time before Indonesia could implement a more effective security sector reform and become a more democratic country.

THE IMPACT OF DECENTRALIZATION ON CLUSTER INDUSTRY

By Kacung Marijan

This article discusses cluster industry from the perspective of relations between the central and local government. The beginning of year 2000 saw the resurgence

of the cluster approach in promoting SMEs among policy makers. However, this was not a new phenomenon because it had already happened during the New Order. The economic crisis in the late 1990's forced the government to adopt cluster approach as a strategy to alleviate the crisis because cluster industries are mostly dominated by SMEs which have been able to survive during the critical economic crisis. After the implementation of the 1999 decentralization policy, the Indonesian government faced problems of coordination among institutions that participated in promoting cluster industries.



The *Bulletin of Indonesian Economic Studies* (BIES) is a peer-reviewed journal published by the Indonesia Project, The Australian National University.

The journal fills a significant void by providing a well respected outlet for quality research on the Indonesian economy and related fields such as law, the environment, demography, education and health. In doing so, it has played an important role since 1965 in helping the world, and Indonesians themselves, to understand Indonesia. In addition to papers reporting economic analysis and research, each issue leads with a 'Survey of Recent Developments', which aims to be accessible to non-economists, and helps to account for the journal's diverse readership within academia, government, business and the broader public.

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CURRENT EVENTS

Illegal Forest Activities in Indonesia

Krystof Obidzinski

SINCE taking office in later 2004, the Cabinet of the President Susilo Bambang Yudhoyono has given a high priority to addressing the problem of illegal logging in Indonesia. The issue has ranked high on the government agenda, which was followed with a series of law enforcement operations throughout the country. In this case, timber smuggling has been the prime target of such operations.

While the smuggling of illegal timber is a major area of concern, it would be wrong of the public to think that illegal logging can be overcome by stopping the smugglers. Stopping smugglers is only part of the solution. As important is the task of addressing the irregularities in the forestry sector that are happening daily in Indonesia through licensed and unlicensed forestry operations.

A study carried out in 2004 by the Center for International Forestry Re-

search and The Nature Conservancy in Berau and East Kutai Districts of Indonesia's East Kalimantan province shows that these irregularities are wide-spread and their impacts can be devastating for the forests and those who live in or near them. Among key forestry illegalities occurring in both districts are:

- (1) Logging operations cutting out of block;
- (2) Logging companies pretending to be stagnant while in fact they extract timber;
- (3) Land-clearing (IPK) permits issued for dubious plantation schemes;
- (4) Unlicensed small-scale logging;
- (5) Log/sawn timber production is under-reported and shipping documents are illegally altered;
- (6) Logging and woodworking enterprises in both districts routinely evade taxation.

BERAU	Revenue Collected (Rp billion)	Revenue lost (Rp billion)
HPH/IPK/HTI		
PSDH	14.65	12.15
Production Re-tribution	1.2	0
DR	71	0
IPPK/IPKTM		
DR-PSDH	0	29.3 ^a
Production Re-tribution	10	0
Small-scale logging teams		
Informal tax	3.6	0
DR-PSDH	0	65.1
Production Re-tribution	0	0.8
Sawmills		
Management Re-tribution	0.3	1.89
Informal tax	2.03 ^b	0
Lumber kiosks and ship-building		
Informal tax	0.2	0
Pulp and paper		
Water tax, PBB	0.4	0
TOTAL	103.38	109.24

Note: ^a This number has been derived by dividing the official figure of lost DR-PSDH of Rp 88 billion for the 2000-2003 by three to obtain a yearly average.

^b This estimate is based on the information that on average each of 37 sawmills in Berau operates 11 months a year and each has a monthly 'informal budget' of Rp 5 million.

The 2003 analysis shows the illegal forestry activities cause large budgetary losses in Berau. In 2003, such losses amounted to over Rp 103 billion. However, this revenue lost is not literally 'lost', as a substantial part of it is appropriated by individuals

and government institutions in position to do so.

Similarly, economic losses resulting from illegal activities in the forestry sector in East Kutai district are large and they far outweigh the gains. In 2003, the losses amounted to Rp 126 billion, mainly in lost tax revenue on HPH, IPK and unlicensed small-scale logging. As in Berau, most of the revenue 'lost' is appropriated by well-connected individuals and government institutions in the district.

EAST KUTAI	Revenue Collected (Rp billion)	Revenue lost (Rp billion)
HPH/IPK		
PSDH	17.1	23.3
DR	46.5 ^a	63.5
Small-scale logging teams		
PSDH	0	10.5
DR	0	28.6
Informal tax	2.1	0
Sawmills		
Informal tax	3.4	0
TOTAL	69.1	126

Note: ^a The amount of DR revenue gained is based on the assumption that about 3% of the total DR revenue generated from the production of logs in 2003 was transferred to East Kutai.

While illegal forest activities in Berau, East Kutai and elsewhere in Indonesia are a drain on the government finances and breed widespread corruption, it must be admitted they also generate employment opportunities, particularly for the unskilled labor force. This is the key fact that renders

BERAU	Employment in 2003
Licensed logging sector	
HPH/IPK	434
HTI	250-300
Unlicensed logging sector	
Small-scale logging teams	3,000
Licensed woodworking sector	
Kiani Kertas pulp and paper mill	1,410 (70 percent skilled jobs)
Unlicensed woodworking sector	
Sawmills, moulding	393
Timber kiosks	124
Ship-building	256
Total licensed forestry sector (logging + woodworking)	2,094-2,144
Total unlicensed forestry sector (logging + woodworking)	3,773
Total forestry sector (licensed + unlicensed)	5,867-5,917

Source: CIFOR survey 2004.

the closure of unlicensed woodworking mills—necessary if effective reduction of the forestry industries' processing overcapacity is to take place—politically and socially difficult. For instance, in 2003 unlicensed forestry operations in Berau generated 4,000 jobs, while licensed operations created 2,000 jobs.

In East Kutai, the licensed forestry sector supported 5,500 jobs in the district only due to disproportionately high number of IPK land-clearing jobs that will be available for a very short time only. The unlicensed forestry activities created 2,500 employment opportunities. If IPK jobs are taken out of the equation, the unlicensed sector jobs significantly outnumber the licensed

forestry sector employment in the district.

The employment generated by the unlicensed forestry sector comes at a high environmental cost. In Berau and East Kutai, the illegal forestry activities in timber extraction and processing are having an increasingly negative impact on forest, soil and water resources. River sedimentation has become a serious transportation problem in both districts, while declining ability of the

EAST KUTAI	Employment
Licensed logging sector	
HPH/IPK	5,319 ^a
Unlicensed logging sector	
Small-scale logging teams	2,000 ^b
Licensed woodworking sector	
Reporting woodworking mills	95
Unlicensed woodworking sector	
Other Sawmills, moulding	505-605 ^c
Total licensed forestry sector (logging + woodworking)	5,414
Total unlicensed forestry sector (logging + woodworking)	2,505-2,605
Total forestry sector (licensed + unlicensed)	7,919-8,019

Source: CIFOR survey 2004.

Note: ^a About 74% of these jobs (or 3,953) were generated by IPKs

^b This is an extrapolation from the situation in the Wahau-Kombeng area, where 55 logging teams (about 550 loggers) annually supply 210,000 m³ of logs to 31 local sawmills that produce 105,000 m³ of wood products.

^c This is an extrapolation from the situation in the Wahau-Kombeng area, where 31 sawmills employ 171 people and annually produce 105,000 m³ of wood products (production/employment ratio: 615 m³/person/year)

watersheds to absorb the rainfall is frequently causing devastating flooding. In Berau, unlicensed logging annually affects about 30,000 ha of forest (1.3-1.4% of the total forest cover). In 2002, East Kutai had nearly 1 million ha of degraded forest, including the nearly completely devastated Kutai National Park. In the long-term it is clear the combined economic and environmental losses outweigh the employment benefits of the unlicensed forestry operations.

By far the most important driving force behind illegal forest activities in Berau and East Kutai is their economic significance as a source of enormous rents—well over Rp 100 billion annually in each district. The national figure is certain to be many times higher. This large pool of money is an important source for personal enrichment, as well as institutional budgetary augmentation, for various district government institutions, companies and communities. The desire to get rich quickly far outweighs the fear of getting prosecuted, while environmental consequences and state budget losses are simply ignored. The scramble for rents from illegal forest activities hampers the cooperation between different government institutions in Berau and East Kutai and fundamentally undermines forest governance in both districts.

If the illegal forest activities in Indonesia forest are to be addressed more

effectively, the scope of the on-going law enforcement measures must be widened beyond timber smuggling to include the widespread abuses that occur daily through the entire range of extractive and processing forestry operations. Such law enforcement efforts must be supplemented with other initiatives seeking to:

- (1) Maintain the spotlight on a difficult, yet critical, issue of restructuring the enormous overcapacity of Indonesia's woodworking industries which drives the insatiable demand for logs;
- (2) Operationalize bilateral agreements between Indonesia and timber importing countries to eliminate illegal timber trade;
- (3) Generate incentives for Indonesian timber producers to adhere to the legal standard through tenure security and certification schemes;
- (4) Help synchronize the forestry legal framework and strengthen tenure security for local communities;
- (5) Support grass-root movements to pressure for greater accountability and transparency in the district forestry sector.

An effective simultaneous implementation of these initiatives would be a more potent tool to tackle illegal forest activities in Indonesia.

The Problems of Thailand's Deep South in a Southeast-Asian Context

Apichai Sunchindah

THE escalation of conflicts and violence in the southernmost provinces of Thailand over the past year and a half has been a wake-up call for citizens of the Thai kingdom and also among its neighboring countries in Southeast Asia and beyond. The existence of conflicts is nothing new. Ever since the dawn of human history, conflicts have been part and parcel of human life. The challenge therefore is how to manage it in an appropriate and hopefully peaceful way. To have a proper understanding of how conflicts occur, it is important to analyze the underlying root causes. Conflicts often result when certain needs or threats, real or perceived, are not adequately addressed in a satisfactory manner. These could cover a whole range of factors: abject poverty, lack of access to basic resources, services and opportunities deemed necessary for decent livelihood, manifestation of gaps or divides between groups of people or among nations, oppression, injustices, alienation, insensitivity, intolerance and the like, suffered by the individuals themselves or their kinsfolk and friends, to name a few.

HUMAN SECURITY AND DEVELOPMENT

A little over ten years ago, the Human Development Report for 1994 published by the United Nations Development Programme (UNDP) first introduced the concept of "human security" into the development lexicon. The basic idea is that security should be people-centered and as such it should take into account all forms of insecurities that human beings could be subjected to from physical to economic, socio-cultural, civil/political and mental/spiritual. Out of this came the twin notions of "freedom from want" and "freedom from fear". In other words, if we are to have a truly secure society, nation and global community, then the people should by and large be *free from want and from fear*, in effect a removal of the various forms of threats to human security.

In September 2000, world leaders and representatives from 189 countries including Thailand met at the UN headquarters in New York and adopted the Millennium Declaration outlining

a broad range of measures that would be undertaken by the world community over the next couple of years to advance human development. This then gave rise to the Millennium Development Goals (MDG) which are a set of time-bound and measurable goals for combating poverty, hunger, illiteracy, disease, gender inequality, and environmental degradation and to forge a global partnership for development. All member states of the UN are therefore encouraged to prepare periodic national reports indicating their progress in achieving these universally adopted goals.

In fact, Thailand had launched its first MDG report in June 2004 which was endorsed by the Thai Cabinet and carried a Foreword from the Thai Prime Minister. The report essentially states that Thailand has already achieved or will soon meet the goals set by the world community, mostly with a timeline of 2015. In terms of the macro picture at the national level, Thailand is in effect on target or has even exceeded them in some cases. As a result, more ambitious targets called MDG+ (*plus*) have been set by the Thai authorities in various specific areas such as poverty, education, gender equality, child and maternal mortality, HIV/AIDS and other diseases and environmental sustainability, some of which, like on infant and maternal mortality, are targeting specific geographic localities like the three

southernmost provinces mentioned earlier.

The Thailand Millennium Development Goals Report 2004 indicated that while poverty levels have been declining steadily over the years both nationally and in the South, the proportion of poor people in those three southernmost provinces remains two to three times higher than the national average. Child and maternal mortality rates are also higher in these provinces than elsewhere in the country with factors such as gender, culture, religion and language affecting the provision of and access to primary health care services. According to the Thailand Human Development Report 2003, both Pattani and Narathiwat came out the lowest among all the southern provinces in the Human Achievement Index, a composite index measuring health, education, employment, income, housing and living conditions, family and community life, transportation and communications and public participation.

The Thai MDG report also pointed out that income distribution continued to be a problem for the country. The share of the national income by the poorest 20% of the people remained stagnant around 4% over the past decade of economic boom and bust while the share of the richest 20% continued to hover slightly above 50%, a rather uncomfortable level in terms of income inequality and therefore a cause for concern and need for concerted

action to correct it. Similar trends in income disparity also occur in most other ASEAN countries and Southeast Asia as a whole still faces many human development challenges despite respectable economic growth rates in recent years. One of the shortcomings of the MDG concept is that it mainly focused on aspects pertaining to "*freedom from want*" and very little at all on "*freedom from fear*", both of which are actually included in the Millennium Declaration from which the goals are derived.

VALUING DIVERSITY

The southern provinces of Thailand and especially the three southernmost ones have rather distinct and unique features whether seen from the point of view of history, ethnicity, language, customs and religion. Much of the mistrust, misunderstanding and resulting problems that have occurred there over the years can be traced in one way or another to a failure to take into proper consideration some or all of the previously-mentioned factors. UNDP's Human Development Report for 2004 focused on the theme of "Cultural Liberty in Today's Diverse World". The front cover showing different colored handprints also carried the following statement:

"Accommodating people's growing demands for their inclusion in society, for respect of their ethnicity,

religion and language, takes more than democracy and equitable growth. Also needed are multicultural policies that recognize differences, champion diversity and promote cultural freedoms, so that all people can choose to speak their language, practice their religion, and participate in shaping their culture—so that all people can choose to be who they are".

A diverse society, while admittedly can often be a source of divisiveness, can however also be a source of tremendous strength and richness if these differing qualities can be properly tapped and harnessed. Educationists and linguists have found that mastering one's mother tongue first in early childhood goes a long way in helping the student in learning other languages including the official one(s) as the case may be. This not only enables the student to have a better grasp of various languages and through that an easier comprehension of the other subjects taught, it actually helps people to have more appreciation of "otherness" and in turn facilitates integration in society. At the same time, the many ethnic dialects and associated cultural heritage, some of which are in danger of becoming extinct, would stand a better chance of being preserved due to more usage. Altogether, a win-win combination if properly pursued.

Interestingly, the national mottos of two of the largest democracies in this

world, one predominantly Christian and the other mostly Muslim, happen to revolve around the same theme of "Unity in Diversity" or "one out of many":- "*E pluribus unum*" in the case of the United States and "*Bhinneka Tunggal Ika*" for Indonesia, a fellow Association of Southeast Asian Nations (ASEAN) member like Thailand. As expected, this is also one of the basic *modus operandi* for the 25-country European Union.

Granted, having such a lofty and utopian ideal is by no means a guarantee that completely harmonious and peaceful conditions will exist in this real and often messy world of ours. However, it does give due recognition and space for diversity and divergent views and provides a reference point to start from as well as a noble goal to strive for in the course of our daily lives. It would serve as a constant reminder that ours is a pluralistic society and world and in order to achieve genuine peace and security, then there has to be first acknowledgement, followed by acceptance of these differences and then interweaving these diverse strands and channeling the various energies into a powerful and unifying entity while at the same time reflecting the multifarious nature of the system.

A good illustration of this kind of "Unity-Diversity" phenomenon in the physical world is by examining the effect of directing sunlight through different intervening media onto a piece

of paper. If a magnifying glass is placed between the sun and paper, the observed result is the burning of the paper due to the focusing of intense energy from white/sunlight at one particular spot. However, if a prism is put in between the sun and paper, what we get is a rainbow of colors due to diffraction of white light into its various colorful components. In nature, the latter phenomenon can be observed when sunlight passes through raindrops creating a beautiful rainbow in the sky. The key here is to know the use of the appropriate intervening instrument for the desired purpose at the right time.

ASEAN EXPERIENCES IN DIVERSITY

The case of Indonesia can be very instructive in comprehending the nature of diversity. It is the largest archipelago in the world with about 14,000 islands stretching some 5,000 kilometers apart from east to west and 2,000 kilometers north to south and well-renown for its rich and diverse natural and cultural resources. It is a country with the world's 4th largest population of over 200 million and which also happens to be the country with the largest number of Muslim inhabitants on this globe. Its people comprise more than 250 ethnic groups and many speak their own languages and dialects including the national language, "*Bahasa*" (equivalent to the

Thai word for language, "*phasa*") Indonesia.

One can hardly find a place on this earth which is more diverse in all such aspects. At one point in its history, it was felt that only a charismatic leader and/or strongman could keep such a country together and that's what happened during the first fifty years since its independence with only two presidents at the helm. However things started to change following the Asian economic crisis of 1997 and the stepping down of former President Soeharto in May 1998. This resulted in a succession of 4 presidents over a period of only 6 years culminating in the presidential election in 2004 whereby the people were able to elect their leader directly for the first time, in addition to voting for the members of Parliament. The fact that the latest election was conducted in a rather fair and peaceful manner showed that Indonesia has turned the corner, so to speak, in terms of democratic governance and is on the path of gradual recovery and stability, both economically and politically. Moreover, it clearly demonstrated that Islam and democracy can co-exist reasonably well in such a diverse country.

What is also interesting to note is that recently, the Indonesian government has even declared Chinese New Year a public holiday. During the days of former President Soeharto, even the public display of Chinese character

was banned. Now, Chinese language newspapers and TV programs are allowed, ethnic Chinese political parties permitted and lion dances are on show during festive events. This truly represents a 180 degree turn around in terms of giving due recognition to an ethnic group which only not many years ago bore the brunt of much violence and suffering from rioting and looting during times of tumultuous changes in the country, not to mention the daily discrimination experienced in numerous ways.

The fact that ethnic Chinese Indonesians have been such targets in the past can be attributed in part to their disenfranchised status in the political arena and yet their ability to gain control of a good portion of the nation's economy and wealth and therefore became a source of envy and hatred by other less endowed groups. The rule of law has to remain paramount for any society to function properly. The challenge, of course, is allowing manifestation of diversity while also reducing the various forms of disparity and injustice. Indonesia is still beset by ethnic and religious strife and discrimination still exists but the symbolic goodwill gestures in recent years as described above are a hopeful sign and can serve as starting points for reconciliation and building of trust. These developments will certainly bode well for the creation of a genuine pluralistic society in the country.

The 2004 Human Development Report of UNDP states that "one way of assessing how diverse groups are recognized and accepted is by the way national holidays celebrate key moments in the history or religion of cultural groups in a country". On this score, it is certainly revealing that the peninsular and insular countries of ASEAN where a significant number of Muslim population in Southeast Asia reside, (i.e., Malaysia, Singapore, Indonesia, Brunei Darussalam) give due recognition to ethnic and religious diversity in their societies if measured by the number of such holidays that are officially declared in those countries. Even the Philippines, which is predominantly Christian, has recently declared Idul Fitri, the celebration of the end of the month-long fasting in the Muslim calendar, a public holiday through presidential proclamation.

On the other hand, the mainland ASEAN countries (Myanmar, Thailand, Lao PDR, Cambodia and Vietnam), which are influenced predominantly by Buddhist traditions, do not seem to attach the same degree of importance, based on the type of holidays observed. The only ethnic/religious holidays in these countries, if any, are basically Buddhist ones with the exception of Myanmar where the new year of Karens, an ethnic group, Deepavali, a Hindu festival, Idul Fitri and Christmas Day are also recognized as official holidays.

In a diverse world that we live in today, one may ask how much space is our society willing to provide for the various ethnic/religious groups, citizens or not, that are living in the same land and allowing all to express themselves fully in their socio-cultural and religious traditions as well as to publicly accept such expressions. After all, does Buddhist philosophy not encourage tolerance, moderation and accommodation? Obviously, simply declaring ethnic and religious holidays are by no means an assurance of achieving harmony among the different population groups or that cultural and religious diversity would be respected. However, it is an important step in acknowledging and accepting pluralism in society.

TERRORISM ASSOCIATED THREATS TO HUMAN SECURITY

Since the end of the Cold War in the late 1980s and especially after the tragic events of 9/11, it has become evident that a major global challenge of at least the early part of the 21st century will be to win the hearts and minds of people who for one reason or another are inclined to choose the path of violence and terror. Invariably, the reasons for them taking up such causes can be traced to the fact that they could not see any better alternative offered to them and/or forced into such situations often out of desperat-

ion, ignorance or external influences. It is only natural that conditions of poverty, deprivation, polarization, and other inequities or injustices in a society anywhere around the world frequently lead to extremism and fanaticism of a militant nature with undesirable consequences.

On the issue of insurgency, terrorist and separatist movements within countries, this is not a new problem, not only for Thailand but also for many other Southeast Asian nations as well. Indonesia and Philippines are the obvious ones that come to mind in recent times. In fact, the situation in the southern part of Mindanao province in the Philippines bears many resemblances to that in the southernmost provinces of Thailand. Both have predominantly Muslim population, are faced with insurgency/terrorist/separatist elements and the central governments have responded with military operations with mixed results. The Philippine government, with the assistance from Malaysia, had over the past few years been undertaking peace talks and negotiations with some of the insurgency/separatist groups operating in Mindanao province. While in no way suggesting that these two country cases are identical, there is probably enough in common to see if some lessons can be shared and information exchanged on what worked and what did not and why, in the spirit of ASEAN cooperation.

Another area worth studying closely in this context but through a human security/development lens is the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT) comprising several southern provinces of Thailand including the three southernmost ones of Yala, Pattani and Narathiwat, a number of northern states in Peninsular Malaysia including Kelantan and almost all the provinces on the island of Sumatra including Aceh in Indonesia. The IMT-GT was initiated back in 1993 by the then Prime Minister of Malaysia primarily to uplift economic development in the triangular area through closer cooperation among the three ASEAN member countries. Over the years, it had received some assistance from the Asian Development Bank in the process.

The three Thai southernmost provinces—Narathiwat, Pattani and Yala—together with the state of Kelantan and the province of Aceh share certain common elements. They are all located at the extremities or boundaries with neighboring countries quite a distance from the respective capitals of the nations which they belong, have very strong ethnic/cultural roots as well as religious faiths/ideologies and are sort of against or different from the mainstream societies in their countries and even harbor separatist tendencies.

In a way, the people living there have been somewhat neglected or marginalized over time and/or experi-

enced lack of opportunities, inequities, injustices or other threats to their security. These common factors may have helped them develop a close affinity for each other and provided mutual sanctuary and assistance among themselves as a result. In short, this area could also be considered as a Triangle of Disaffected Groups (or TDG). It is therefore not surprising that terrorist and/or separatist networks have been operating in such a milieu with comparative ease and with sympathetic support. The problems have thus taken on a transboundary character and as such require close regional cooperation to deal with them effectively.

The challenge from a human security and development paradigm is to see how to better reach the common people by identifying the insecurities and threats facing areas like the TDG or even the southern Philippines and then finding the proper space and forum for constructive dialogue and addressing them in an appropriate and concerted manner by the governments of the countries concerned which are all members of ASEAN. In this day and age, genuine confidence-building and peaceful co-existence are key issues that we all need to constantly face and handle with care in the course of our daily lives. As stated in one of the provisions of the Constitution of the United Nations Educational, Scientific and Cultural Organisation

(UNESCO), "...That since wars begin in the minds of men, it is in the minds of men that the defences of peace must be constructed".

In this regard, it might be useful to recall the Communist insurgency or Red threat facing the Southeast Asian countries starting from forty or so years ago until the late 1980s. This was one of the driving forces for the then five founding members of ASEAN to form the regional grouping back in 1967 in order to serve as a bulwark to contain the spread of communism in the region and in effect counter the falling domino theory which was much touted at that time. The elements that made communism attractive during those days bear much similarity with those that attract people to be terrorists today—destitution, inequity, ideology and so forth.

Thus, the lessons of four decades ago are there to be learned and reflected upon in the present context. We must be able to offer people more security, justice and hope for a better tomorrow if there is any chance of winning the war on terrorism. The Secretary General of ASEAN, Ong Keng Yong, at a recent security conference touched on human security as the best deterrent to terrorism by saying that "We all know that terrorism cannot be eliminated through military and police action and financial safeguards alone. Deep-seated resentment arising

from social inequality, poverty and lack of opportunities serves as fuel to terrorist inclinations... We cannot use systems and technology alone in the counter-terrorist campaign. The support of the people is essential... the human factor is most important”.

BALANCED PERSPECTIVE AND MUTUAL ASSISTANCE

The barrage of criticisms and close scrutiny that Thailand and Thai people, either at home or abroad, received following the recent tragic incidents of Krue Se and Tak Bai in the country's Deep South leading to substantial casualties, while understandable, should also be examined in a logical and balanced perspective. Besides the apparent human rights-related violation, the furore or protest expressed is that Muslim Thais have again been unfairly targeted. It should also be reminded that many Thais of Buddhist or other faiths have already died over the past year and a half through innumerable terrorist-type killings. In fact, most communities in Thailand's Deep South have over the same period been gripped with fear and faced economic downturn, therefore clearly facing a human insecurity problem. Ways have to be found to swiftly stabilize the situation in the most sensible and peaceful fashion possible. The culture of violence and impunity has to be put to an end. Any injustice or violation committed anywhere should in principle elicit equal condemnation and receive

appropriate punishment irrespective of the place, time and person concerned.

The Thai authorities admittedly mishandled the situations in Krue Se and Tak Bai and have expressed remorse. Several panels have already conducted investigations on the incidents and their reports have been released to the public, albeit not completely. These two cases are painful yet valuable lessons learned and hopefully such incidents would not recur again. A National Reconciliation Commission has been established earlier this year to try to restore peace, trust and understanding to the troubled and restive parts of southern Thailand. This has been generally viewed as a positive development and a step in the right direction. There remains much to be done to ensure that human security needs across a broad spectrum of society are adequately met and protected.

In the spirit of being part of the ASEAN family, it would also be more constructive on the part of Thailand and its neighbors to offer or receive helpful assistance and useful advice rather than just have mere exchanges of criticism and condemnation. In fact, such cooperative initiatives have already taken place recently like in the case of exchange visits by leaders of Muslim religious organizations between Indonesia and Thailand to foster better understanding, dialogue and collaboration. The recent pledge made

by Malaysian authorities to help restore peace in Thailand's Deep South through joint cooperation on a range of concerned issues from security to education and religious understanding could also be seen as a good sign.

Just as some fellow ASEAN member countries have expressed interest and desire to know more about the Thai experiences in many aspects of economic development, perhaps Thailand can also learn from its ASEAN neighbors about conflict management mechanisms and ethnic relations schemes that could shed light on possible ways and means for peaceful resolutions to some of these tricky problems. We need to foster more the spirit of "*gotong royong*" or mutual self-help or assistance within the ASEAN family which would in turn strengthen the bonds of friendship, promote solidarity and enhance resilience.

To put things in proper perspective, Thailand over the years have been on the forefront of providing humanitarian assistance and a sanctuary especially in accepting millions of refugees from all walks of life from neighboring Cambodia, Laos and Vietnam as a result of the Indochina War and more recently refugees from Myanmar spilling over due to ethnic and other conflicts across the border and various other causes. This was done without Thailand being a party to the 1951 UN Refugee Convention. Thailand has also

been active in conflict/post-conflict situations in recent times in places like East Timor, Aceh, Afghanistan, Iraq and even Burundi. The key challenge for Thailand now is for it to channel the same kind of humanitarian spirit which it had demonstrated towards refugees, displaced persons and victims of conflict of neighboring or even far-away countries to its own residents in the Deep South.

ONE ASEAN AND ONE WORLD

Looking ahead, ASEAN leaders have recently held their annual summit in November 2004 in Vientiane. This particular caucus took on special significance due to the fact that the next 6-year plan in the roadmap to reach the goals stipulated in ASEAN Vision 2020 was adopted for implementation. It is hoped that the authorities will give due consideration to the various issues relating to human development and security facing the ASEAN peoples.

Today, the immediate threat or trouble spot may be southern Thailand; tomorrow the flashpoint could be any place within ASEAN. While the plight of the residents in southern Thailand are being highlighted recently, we should not forget that there are countless other people within the ASEAN region who are suffering from various forms of poverty, diseases, illiteracy, injustices and discrimination at the moment which can just as readily boil over into violence and tragedies if

preventive measures are not taken in time.

The political and security cooperation within ASEAN over the years have enabled relatively peaceful and stable conditions to take hold within the region. This has allowed economic growth, development and cooperation to take place in a fairly uninterrupted manner. The challenge now is to ensure that the benefits of such cooperation are shared equitably among the ASEAN peoples so that they become *free from want and from fear*. In principle, a human security threat at anytime in any country within ASEAN should be treated as a threat to the entire region and the problem addressed in an appropriate and timely manner.

As in practically all things in life, prevention is better than cure. Suitable pre-emptive and pro-active policies need to be devised and implemented if we are to make real and substantive progress on this crucial front. ASEAN has interfaced with external parties around the world called "Dialogue Partners" ever since its establishment almost four decades ago. The time has come to have more constructive dialogue and engagement with its own people in order to hopefully remove as much of the insecurities that its populace is facing. The dangers are usually more threatening from within than from without and can become potentially explosive when both are combined.

The ASEAN leaders who adopted the Vision 2020 statement back in 1997, outlining what they envisaged South-east Asia to be like in the year 2020, made a pledge to their peoples of their determination and commitment to bringing this Vision into reality which included a whole range of issues pertaining to human development and security. Six years later, at the ASEAN Summit held in Bali in October 2003, the leaders issued the Declaration of ASEAN Concord II. It reaffirmed their commitment to the principles adopted in the earlier years and further elaborated on the goals of Vision 2020 to establish an ASEAN Community resting on the three pillars of ASEAN cooperation, namely, political/security, economic and socio-cultural dimensions.

Interestingly, the leaders once again pledged to their peoples of their resolution and commitment to bring the ASEAN Community into reality. The ASEAN peoples should therefore start making their leaders accountable to fulfill those pledges—now and towards 2020. In order to help ensure that such promises materialize, and as a demonstration of being true to the letter and spirit of such statements, there should perhaps be a cultivation of a greater sense of perception of inter-connectedness and the feeling of the "pulse" among all ASEAN peoples like what John Donne wrote almost four centuries ago, "No man is an island, entire of itself; every man

is a piece of the continent, a part of the main....Any man's death diminishes me because I am involved in mankind; and therefore never send to know for whom the bell tolls; it tolls for thee".

The recent earthquake-induced tsunami disaster hitting a dozen nations across the Indian Ocean rim, including four ASEAN countries, within a span of a few hours is a case in point of an extreme event causing widespread damage and enormous casualties, thus creating a high degree of human insecurity throughout the affected areas and beyond, almost simultaneously. As a result, there has been a tremendous outpouring of sympathy from the world community coupled with offers of relief as well as other forms of assistance mobilized at a global scale. While in no way belittling the catastrophic nature of this particular incident, it should also be reminded that there are innumerable other lesser known and less dramatic events occurring almost everyday around the world and in even within Southeast Asia which nevertheless exhibit signs of misery and threats to human security.

It is also worthwhile to note that parts of the IMT-GT was the area within ASEAN that was most seriously hit by the tsunami, whereby some have even suggested that this would offer a window of opportunity for peace and reconciliation efforts to be

pursued in such places as the conflict-prone Indonesian province of Aceh, where the devastation and toll was the greatest. Peace talks have actually been undertaken recently between the concerned parties, this time brokered by a former Finnish prime minister. It is also worth noting that an IMT-GT Summit is scheduled to be held in Malaysia in December 2005. In this regard, it is sincerely hoped that human security/development issues could appear as important items for discussion on the meeting agenda.

As the title of the recently published report of the UN High-Level Panel on Threats, Challenges and Change suggests, having a more secure world should indeed be a shared and collective responsibility of everyone. This is also echoed in the UN Secretary General's report "In Larger Freedom: Toward Development, Security and Human Rights" to be deliberated on when leaders and representatives of the world gather in New York in September this year to mark the UN's 60th anniversary. We are after all living in one diverse but interdependent community and somewhat unpredictable world, more so today than ever before. As Sharif Abdullah once said "I want to live in a world where wealth is measured by how much you share"—a simple yet profound statement in our common quest for a sustainable and equitable society, nationally, regionally and globally.

REVIEW OF POLITICAL DEVELOPMENT

Accumulating Democracy Deficits: How Indonesia Moves Backwards

Christine Susanna Tjhin and T. A. Legowo

Introduction

THE second quarter reveals the political uproars over fuel price subsidies that were withdrawn by the Government. The politicized debates among legislators over the subsidy cut has so far resulted in deadlocks and childish brawls at the House of Representatives, as well as in calls for Cabinet reshuffles from parties supporting the President. The uproars were toned down with the patriotic drama of Ambalat as Malaysia claimed ownership of the Ambalat territory.

Numerous party conventions also became the limelight of this quarter. Yet, no improvements of party reform are evident, —except for the PKS. Instead, factionalism within parties had

emerged and status-quo groups have generally maintained their position. Even the discourses of reform raised by the oppositions of the status quo in all parties did not perform convincingly. Most parties have degenerated as they failed to regenerate their cadres. The results are either the same 'charismatic leader' remains in his/her seat or the new one secured the support of the old 'charismatic leader' who keeps a significant post within the party. Golkar, which went through party convention relatively unscathed, has maneuvered for greater dominance in Indonesian politics. This highlights suspicion over Jusuf Kalla's tendency to undermine Yudhoyono presidency.

The progress of the Aceh Reconstruction Program seems to go virtually slowly. Even though the reconstruct-

ion authority (BRR) and the blueprint has been established, the process simply stagnates. Some donors have already withdrawn their commitment due to this negligence. The same stagnation occurs with the peace talk in Helsinki between GAM and Indonesian representatives. The civilian emergency status (*Darurat Sipil* or *Darsip*) has been lifted and changed to civilian order status (*Tertib Sipil* or *Tersip*), no one is sure the difference between the two status and they wonder how big the gap will be between technical definition and actual implementation.

The war against corruption was taken into a new height as the KPU corruption case unfolds. The story began with the arrest of Mulyana W Kusumah, former KPU members and activist, after his attempt to bribe the auditor of Supreme Audit Body (*Badan Pemeriksa Keuangan/BPK*). A new anti-graft body was also established by the President, called the Coordinating Team for Eradicating Corruption (*Tim Pemberantasan Korupsi/Timtas*) on May 2005. Many wondered the extent to which an additional body would help make the anti-graft campaign more effective and accountable.

Last minute ditches to safeguard (or to compromise) direct regional elections (*Pilkada*) continued. The judicial review over the Law No. 32/2004 to detach the regional Electoral Com-

mission (*Komisi Pemilihan Umum Daerah/KPUD*) from the regional Parliament (DPRD) was granted by the Constitutional Court on 22 March 2005. This means that the likelihood of political bias from KPUD is lessened, but not completely eradicated. In addition, the Ministry of Home Affairs continues to grab a hold on the Pilkada processes by opening Pilkada Desk in the related administrative government.

Civilian supremacy over the military continued to be undermined as the armed forces continues to expand their domination in the military through the plan reported by Army Chief of Staff, instead of by civilian authority, to add 22 territorial commands (*Komando Teritorial/KOTER*) in conflict areas. The likelihood of Military comeback into politics is also enhanced by the permission of TNI Commander for military personnel to run in Pilkada.

On the human rights front, nothing seems promising and encouraging. Impunity remains likely with the major human rights cases, including the May 1998-related cases, have yet to be processed fairly. The legal processes for Munir case have also been undermined as the National Intelligence Body (*Badan Intelijen Nasional/BIN*) continues to disregard the Executive Fact Finding Team (EFFT) established by the President. Freedom of information is also under threat with the Bill of Criminal Code that comprises

of 49 rubber articles, which will win "national security" arguments over freedom of information. Cases of Buyat and Tentena bombing further highlight the drawbacks in human rights movement in Indonesia.

All in all, Indonesia is accumulating democracy deficits rather than progressing with democratic consolidation. Evidently, the 'shinning' example of Indonesia's democracy has systematically dimmed.

Fuel Subsidy Cut and Ambalat Dispute

President Yudhoyono's decision to pull out fuel subsidies generated political uproars nationwide. Proponents argued that fuel subsidies have benefited the less-in-need more than the ones actually deprived, and that it was time fuel subsidies be allocated to other more critical sector such as education and health. Opponents counter-argued that the President's action could bring severe economic repercussions to the society and raised the concern that the Executive power under the amended Constitution may turn out to be un-guarded enough. Some continued to quarrel, some geared up to ensure that education and health sectors get what they have been promised to, and the rest decided to fish some luck out of the mud.

The politicizing of fuel price debates at Senayan seemed inevitable.

The President with the support of Golkar (headed by Vice President Kalla) and other allies pushed for their way in the Parliament. When protests of the opposition groups headed by PDI-P were not heeded by the Parliament Chair, Agung Laksono—who is a loyal supporter of Kalla in Golkar—the tension burst to another brawl that caught immediate and extensive media attention. On other plateau, PPP Chair, Hamzah Haz, in exchange for his support for the President in the debates, had asked for cabinet reshuffle. He suggested for the replacement of the Minister of State Enterprises, Sugiharto, who is also his rival in PPP. He has yet to obtain his offer.

The debate, nonetheless, subsided, thanks to the Malaysian warships around Ambalat. On March 2005, Indonesia and Malaysia bickered over maritime-border disputes that threatened to escalate to inter-state war. The Ambalat controversy sparked ultra-nationalist reactions that benefited the Government's fuel-subsidy-cut policy. The shameful past of loosing Sipadan-Ligitan islands to Malaysia in the International Court of Justice, the continued strains over Malaysia's ill-treatment towards Indonesian migrant workers, and the historical romanticism of Soekarno's "*Ganyang Malaysia!*" (Bash Malaysia) have contributed to the jingoistic chutzpah. The Ambalat case remains problematic, but the fuel debates have undeniably left the building.

Failing Re-generation of Party Leadership

The second quarter of 2005 was an almost-predictable-no-changes period of party conventions, such as Megawati-led PDI-P, Gus Dur-led PKB, Soetrisno Bachir/Amien Rais-led PAN, Hamzah Haz-led PPP, and Yudhoyono-led PD. Unlike the change of leadership that occurred in Golkar, those parties broke the promises of regeneration. They were once again chaired by incumbents or incumbent-appointed candidates (PAN, in which Amien Rais was put on a powerful honorary position; and PD with Yudhoyono's blessing).

PKS is an exception as the party managed to perform a relatively more democratic and peaceful leadership change without being marred much by money politics. It was relatively more democratic because the election processes were conducted in a multi-tiered voting system from the lowest party structure. It was relatively peaceful because there was no significant factionalism and there was no blatant indication of vote sales either. The changes of leadership occurred in the *Syuro* Council and *Tanfidziah* Council. PKS ability to manage and consolidate itself obviously is a great challenge to the major parties that remain to be managed traditionally. No wonder that the Vice Chairman of Golkar Central Committee stated that PKS will be Golkar's main competitors in the upcoming elections.

In some cases, intra-party factionalism has threatened to tear the party apart. PDI-P is one of the more dramatic cases, where members of the opposing group, which is headed by Sukowaluyo Mintorahardjo, hoisted Guruh Soekarnoputra, Megawati's brother, up as her competitors for the chairpersonship. It seems that the discourse of 'reforms' was not able to overthrow the charismatic label of "Soekarno", even if Megawati were unable to regain her throne.

Other oppositions include prominent figures: Kwik Kian Gie (former Head of Bappenas), Laksamana Sukardi (former Minister of State Enterprises), Sophan Sofiaan (actor-cum-politician), Roy B. Janis (Parliament member), etc. Despite adamant opposition, Megawati re-gained her throne with the support of the "Gang of Three"—Soetjipto, Pramono Anung and Gunawan Wirosarodjo. She then ousted her oppositions and recalled some from Parliament seats.

In PKB, the dissonances between the group that favor Gus Dur, Indonesia's fourth president who got impeached versus the one supporting Hasyim Muzadi, Chairperson of Nahdlatul Ulama, also Megawati's vice presidential candidate, heightened during the 2nd Convention (16-18 April 2005). The results of the convention have put Muhaimin Iskandar (Member of Parliament) as Chairman of the *Tanfidziah* (executive body) and

Gus Dur as head of the *Syuro* Council (legislative). The opposition groups, which include Alwi Shihab, who currently serves as Coordinating Minister of Welfare, and Saifullah Yusuf as Minister of the Accelerated Development of Disadvantaged Regions (also Gus Dur's nephew), immediately launched legal suit. The Parliament has so far decided to honor the convention results, until a court decision says differently.

Though Amien Rais decided not to run in PAN's 2nd Convention (7-10 April 2005) and publicly claimed that he would remain impartial, it was obvious that he was putting his weight on Soetrisno Bachir through the participation of his son, Hanafi Rais, in Bachir campaign team. Around early March 2005, PAN received a 'warning' in a form of a quasi-factionalism. The inception of Muhammadiyah Mandate Association (*Perhimpunan Amanat Muhammadiyah* or PAM) was a manifestation of the discontents of Muhammadiyah Youth Batch (*Angkatan Muda Muhammadiyah* or AMM), who felt that they have not been given enough opportunities to play a role in PAN.

The bickering in PPP was spotted immediately by the media when some members decided to host a national gathering (*Silatnas*), which resulted in a decision to accelerate the implementation of PPP National Convention from 2007 to 2005. Several members of the Central Committee including Hamzah

Haz as the Chairperson rejected the result and went further by sacking members who allegedly continued to create internal problems. As retort, the pro-*Silatnas* groups, which include some members of Expert Council, *Syariah* Council, Central Trustee Council, and Daily Operational Committee, have threatened to freeze the Central Committee if it continues to dismiss members. The issues remain unresolved.

After many delays, internal deadlocks and President Yudhoyono's personal intervention, the first Convention of (*Partai Demokrat*/PD in Bali (mid May 2005) elected Hadi Utomo as the Chairperson. Hadi Utomo is the brother-in-law of President Yudhoyono. The President himself was elected as Chairperson of the Advisory Board. Hadi Utomo's name was proposed by Budhisantoso bloc and deemed by many as the middle person that could tone down internal bickering. Factionalism in PD was mainly based on the struggle for power between old members of the Central Committee (headed by Vence Rumangkang) and those who played substantial roles in getting Yudhoyono achieve his presidential seat today (headed by Subur Budhisantoso).

The critical public picked up the signs of degeneration as indicated in a phone-survey by *Kompas* in ten major cities. The survey showed low appreciation towards political party despite the greater confidence over democratization process in Indonesia.

Low confidence ironically is also aimed towards the regeneration process itself. It did not seem that the public has potential candidates in mind just yet to run major parties, thus prefers to re-elect old guards despite the undemocratic internal practices.¹

Most of these parties suffered larger loss of votes in 2004 Elections, compared to the 1999. The humiliation is particularly heightened for PDI-P, former champion of the people, who got beaten big time, twice—in the Legislative Election by Golkar and in Presidential Election by Yudhoyono-Kalla. This has been one of the most highlighted reasons behind party factionalism.

Failures to manage internal conflict, power and/or money hungry elites, and dearth of ideologies as well as democratic ideals have been identified by some analysts as the characteristics of Indonesian parties.² The propensity to rely upon "charismatic leader" factor in party identification has once again proven to be pervasive.³

¹*Kompas*, 2 May 2005. According to the survey, 56% of the respondents thought that the political party gave a lousy example of democratic practices. Only 32% of them think otherwise.

²Ikrar Nusa Bhakti & Daniel Sparingga, *The Jakarta Post*, 2 May 2005.

³Based on a survey prior to PDI-P Convention, for example, by the Indonesian Survey Institute that 40% of the 1,200 respondents in 11 provinces considered the PDI-P had failed to perform in the 2004 le-

The ways in which political parties have been organized bear fewer similarities to the supposed democratic functions than to the "cartel"⁴ functions or the "dynasty"⁵. The political agendas raised by these parties hardly represent the constituents' interests. Mass mobilizations only occur to pursue the narrow interests of elite few, not for the sake of public political education—in particular, regarding the significance of regeneration process of democratic political parties.

All political parties have failed in formulating critical public policy issues as the priorities of their five years programs. Practically all of the results of the numerous party conventions contain no substance. This is indicative of party being managed traditionally despite the increasing demands for reform. The hope for imminent party reform is utterly far-fetched.

The Return of Golkar Domination in Politics

Golkar, which led by Jusuf Kalla and had just gone through party con-

gressional election and only 34% stated otherwise. When referring to the performance of Megawati, nevertheless, 93% expressed their satisfaction with her leadership. *The Jakarta Post*, 18 March 2005.

⁴J. Kristiadi, 'Dominasi Parpol dalam Pilkada: Menuju Terwujudnya Sistem "Partai Kartel"?', in *Kompas*, 9 May 2005.

⁵Indra J. Piliang, 'Menghapus Jejak Petualang', in *Kompas*, 12 April 2004.

vention in one piece, has slowly but surely expanded their domination in the government. The call for Cabinet reshuffle is one indication. The call formally came from Golkar Youth Batch (*Angkatan Muda Partai Golkar* or AMPG) and Golkar denied the claim as related to Golkar's.

This move reflects pressures towards President Yudhoyono authority more rather than intentions to improve the government performance. Golkar's bulging self confidence may backfire because public confidence towards Golkar, or political parties in general, is (are) still minimum.

Most importantly, if President Yudhoyono complies with such pressures, the legitimacy of his presidency will decrease significantly. If a President who bears mandate from the people allows pressures from a party that failed to secure greater support from public during the Elections to steer his ruling, his legitimacy will be severely compromised.

Non-Existent Aceh Reconstruction Program

The long-awaited Aceh reconstruction authority was established in the end of April 2005. Kuntoro Mangkusubroto—the former Minister of Mines and Energy with a clean track record—was appointed as the leader of Executive Agency for Territorial and Societal Rehabilitation and Reconstruction of

Aceh and Nias (*Badan Pelaksana Rekonstruksi dan Rehabilitasi/BRR*).

BRR comprises 3 key elements—the executive body (*Badan Pelaksana*), the advisory body (*Badan Pengarah*), and the monitoring body (*Badan Pengawas*). Over the next five years, the powerful agency will regulate some Rp 46.1 trillion (US\$4.8 billion), grant tenders to private sector, and work with foreign donor countries and agencies—in accordance to the Blueprint issued by Bappenas on 26 March 2005.

— Additionally, on 18 May 2005, the government and DPR agreed to lift the Civilian Emergency (*Darurat Sipil* or *Darsip*) status of Aceh and enforced the new Civilian Order (*Tertib Sipil* or *Tersip*) status the day after (Presidential Regulation No. 38/2005). This may be a positive sign that the reconstruction process may proceed peacefully, although up until this report was made, the military has not yet withdrawn military and police personnel who were assigned since the implementation of military emergency status in May 2003.

The apprehensions however are manifold. There has been no clear description or explanation from the government on the difference between *Darsip* and *Tersip*. Success or failure indicators are also non-existent. Technically, local governance and decision making will return to the rules under the Special Autonomy Law instead of

the Emergency Law. There are no more restricted areas and limitations on civil and political rights. But the registered red-white ID that is compulsory for the Acehnese is still applicable. Also, no one can guarantee that the change of status would bring immediate change of behavior of the security apparatus as well as the existing GAM members in maintaining peace and order or reconciliation.

Moreover, there has not been a clear sign on how peace dialogue in Helsinki between Indonesian government representatives and GAM representatives would end. The discussion has not moved from how power would be shared in Aceh although it seems that the concept of Special Autonomy has not been bluntly rejected by GAM and GAM's 'self-governing' concept that outraged the Indonesian government no longer pop up in the discussion. The idea of including GAM leaders in the Direct Regional Election (*Pilkada*) process in Aceh has also not developed to clearer details. *Pilkada* in Aceh was initially scheduled for June 2005, but the tsunami and reconstruction considerations have pushed the government to postpone the implementation to October 2005.

Like putting salt on a fresh wound, a few Parliament members commented on the peace talk in Helsinki and stated that the peace talk threatens nation's integrity and encouraged the Military Commander not to obey civilian auth-

ority. The solution to Aceh's problem, they said, is simply a more effective military-led integrated operation. Tragically, this comes during the supposedly Civilian Supremacy period. Already several human rights NGO protested this callousness. A nation's integrity lies on humanity, not on guns. The grueling labor of civilian supremacy movement since, at least, 2001, suddenly means zilch upon such self-destructing encouragement.

Based on *Kompas'* Banda-Aceh-based survey, the public is slightly more content now with security development in Aceh and infinitely more worried about the welfare and reconstruction progress. The change of status has been regarded positively, as the likelihood of overlapping authorities between civilian and military authority may be avoided. The irony, though, is that there seems to be a low confidence over civilian authority capacity not only in securing peace but also in generating development accordingly.⁶

Criticisms against Bappenas' blueprint came as soon as it was publicized. Other than the non-transparent and unrealistically rushed drafting process, as well as the vague shape of the blueprint, some experts argued that there is a huge gap between the program planned in the blueprint and people's aspiration. Accordingly, fine

⁶*Kompas*, 23 May 2005.

implementation seems very unlikely. Regarding political development in particular, the government is having problem in identifying focus for human security development and 70% of the allocated budget would be used for physical development of the military instead of guaranteeing conflict resolution, constructive state-civil society relations, and reconciliation.⁷

Based on the field rapid assessment by Civil Society Alliance for Democracy (YAPPIKA), it was reported that the development process in Aceh remained disturbingly stagnant. Practically, national and regional budget as well as foreign financial aids have not been allocated yet, moreover realized. Several international agencies have been and are still working in Aceh, but their efforts could hardly cover the vast destruction of the tsunami. Restlessness is rapidly growing throughout disaster areas and refugee camps. Regional authorities virtually are frozen—due to among others fear of errors and corruption in the reconstruction process as well as inability to create real utility for the people after prolonged selfish habits of conflict entrepreneurship in the past.⁸

The establishment of the agency itself is far from being effective, as it

could not manage to address the urgency and the sheer enormity of the Aceh reconstruction challenges. Government tardiness and negligence have frustrated not only the Acehnese, but also international donors, e.g., upon realizing the bleak prospect of the government reconstruction fund management, Medicine Sans Frontieres (MSF) decided to return donor funds that were intended for tsunami victims. Many have called for collaboration and cooperation between relevant stakeholders, but the government has yet to develop a habit of trusting civil society, vice versa.⁹

Fighting a Chronic Disease: Fragility of the Anti-Corruption War

The practice of corruption in Indonesia appears to be an enduring cancer that has long been undermining the nation. BPK reported 2,128 cases of irregularities in the management of state funds during the second term of 2004, with potential losses to the state amounting to Rp 7.12 trillion (\pm US\$765 million).¹⁰

⁹Daniel Kingsley, "Does Master Plan for Aceh Rehab Drive NGOs Away?", in *The Jakarta Post*, 18 and 19 May 2005.

¹⁰The period of the audit was between July and December 2004 over 586 accounts that worth Rp 282.89 trillion. This represents 64.84% of the funds allocated under the 2004 state budget and local government budgets, and in the financial reports of state-owned and local government enterprises. *The Jakarta Post*, 16 March 2005.

⁷*Sinar Harapan*, 9 May 2005.

⁸This report was based on research team observations on 310 focal points, 800 Focus Group Discussions, 260 in-depth interviews in 10 districts of Aceh.

The wave of anti-corruption exposure re-started with the arrest of Mulyana W. Kusuma, the KPU member/prominent activists since Soeharto era, who was caught red handed trying to bribe, Khairiansyah Salman, an auditor of the Supreme Audit Body (BPK). The bribe was intended to compromise BPK's findings of KPU's markup practices in the procurement of election materials that amounted to Rp 90.26 billion (\pm US\$10 million). NGO coalition's report mentioned a much bigger number, Rp 375 billion (\pm US\$42 million). This number excluded the amount of un-identifiable bribes from companies involved in tender process allegedly to KPU individual members. Large scale investigation was made and more KPU members were detained: Sussongko Suhardjo (Executing Officer of the Secretary General) and Hamdani Amin (Head of the Financial Bureau). Later in mid-May 2005, KPU Chair, Nazaruddin Sjamsuddin, was also formally a suspect.

This spate of investigation has severely tarnished the credibility of the KPU. The conviction that academia and NGO activists being a role model of an independent and clean KPU have been wiped out systematically by the Mulyana case. The toils of KPU during 2004 Elections must still be appreciated, but the corruption cases must be settled once in for all—most importantly through fair and transparent judicial processes. The de-

mands towards the government and the Parliament to change the KPU members, whose tenures are still technically valid until 2006, seem to be inevitable, as both agencies have responded positively to the demands.

Meanwhile, on 11 April 2005, former Governor of Aceh, Abdullah Puteh, was charged for 10 years of prison by the Anti-Graft Commission (KPK). Several other state officials (national and local) are still facing trials.

On May 2005, President Yudhoyono established a Coordinating Team for Eradicating Corruption (*Timtas*) with 51 members, which was later known as a "house cleaning policy". However, there are questions on whether the inception of this body would help make the anti-corruption war more effective or even more inefficient and further complicating things.¹¹ *Timtas* has already identified 16 state enterprises allegedly involved in corruption cases that amount to Rp 2.6 trillion (approximately US\$289 million). Investigation is also underway for 4 ministries, 3 private companies and 12 fugitives.

A critical factor in the fight against corruption is the witness protection bill that has yet to be passed by the Parliament. A blatant example of how vulnerably witness' position is in Indonesia is the comment made by the

¹¹Teten Masduki, 'Harapan Baru Pemberantasan Korupsi' in *Kompas*, 7 May 2005.

Head of BPK, Anwar Nasution. He denigrated his staff, Khairiansyah, for being a whistleblower, accused him as a sensationalist, and threatened to discipline Khairiansyah.¹² Fortunately, such irresponsibly discouraging behavior was countered by many civil society elements. KPK offered Khairiansyah legal protection, and an auditors association offered Khairiansyah a job if he were dismissed from BPK. After a grand public pressure over Nasution, he decided to have a change in attitude.¹³

Safeguarding Pilkada 2005

Some irregularities of certain articles on direct regional election (Pilkada) in the hurried Law No. 32/2004 regarding Regional Authority were rectified by the decision of the Constitutional Court in 22 March 2005 to annul four articles (Article 57[1], 66[3], 67[1], and 82[2]), all of which reflect the political bias of having the Regional Electoral Commission (KPUD) accountable to Regional Parliament (DPRD). The Constitutional Court also annulled the explanation of Article 59 that allows only political parties with seats in DPRD to submit regional authority candidates.

This, however, has not addressed the fundamental criticism over the

implementation of Pilkada. The government has often stressed that Pilkada is outside the General Election regime. The implications are that Pilkada is not regulated by General Electoral Commission (KPU) only limited to observatory and advisory role; The government (in this case, Ministry of Home Affairs) would play a greater role in regulating Pilkada, through, i.e., the establishment of Pilkada Desk in every related administrative area; Disputes and trials over Pilkada results will be handled by local judicial system, instead of the Constitutional Court. All in all, the implementation of free and fair regional elections will be severely compromised, if not politicized for the purpose of re-centralization.

There are concerns that Pilkada 2005 may not be as smooth as the 2004 General Elections. According to CETRO (The Center for Electoral Reform), there will be 181 elections in June 2005, six elections per day in average. In total, there will be 215 elections (mayors, regents and governors) for the year 2005.¹⁴ Potential conflicts may stem from the inability of security apparatus to cover the scope, and the political party to adequately regulate mass mobilization-particularly in conflict areas and newly separated administrative areas.

¹²Gatra.com, 17 April 2005.

¹³Liputan6 SCTV, 18 April 2005.

¹⁴The Jakarta Post, 23 May 2005.

Table 1

ELECTORAL AREAS OF PILKADA IN JUNE 2005

Provincial Level - Governors and Vice Governors Election				
Jambi	Bengkulu	West Irian Jaya	West Sumatra	Central Kalimantan
South Kalimantan	North Sulawesi	Papua	Aceh	Central Sulawesi
Regency Level - Regents and Vice Regents Election - ACEH PROVINCE == Postponed to October 2005				
Lhokseumawe*	Langsa*	Aceh Jaya	Nagan Raya	Gayo Lues
Southwest Aceh	Aceh Tamiang	Central Aceh	North Aceh	West Aceh
Bener Meriah	East Aceh	Sabang*	Aceh Singkil	
Regency Level - Regents and Vice Regents Election - NORTH SUMATRA PROVINCE				
Pakpakbharat	Humbang	Serdang Bedagai	Samosir	Binjai*
	Hasundutan			
Mandailing NTL	Asahan	Tapanuli Selatan	Sibolga*	Medan*
Pematang Siantar*	Toba Samosir			
Regency Level - Regents and Vice Regents Election - NORTH SUMATRA PROVINCE				
Dharmasraya	Solok Selatan	Pasaman Barat	Bukit Tinggi*	Agam
Padang Pariaman	Toba Samosir			
Regency Level - Regents and Vice Regents Election - RIAU PROVINCE				
Indragiri Hulu	Lingga	Natuna	Dumai*	
Regency Level - Regents and Vice Regents Election - SOUTH SUMATRA PROVINCE				
Ogan Komering Timur	Ogan Komering Selatan	Ogan Ilir	Musi Rawas	
Regency Level - Regents and Vice Regents Election - LAMPUNG PROVINCE				
Lampung Selatan	Bandar Lampung	Way Kanan	Lampung Timur	
Regency Level - Regents and Vice Regents Election - BENGKULU PROVINCE				
Mukomuko	Kaur	Seluma	Lebong	Kepahiang
Rejang Lebong				
Regency Level - Regents and Vice Regents Election - WEST JAVA PROVINCE				
Depok*	Sukabumi			
Regency Level - Regents and Vice Regents Election - CENTRAL JAVA PROVINCE				
Pekalongan*	Semarang*	Rembang	Magelang*	Sukoharjo
Blora	Boyolali	Purbalingga	Kebumen	Surakarta*
Sragen	Kendal			
Regency Level - Regents and Vice Regents Election - YOGYAKARTA PROVINCE				
Bantul	Gunung Kidul			
Regency Level - Regents and Vice Regents Election - EAST JAVA PROVINCE				
Ngawi	Lamongan	Gresik	Surabaya*	Situbondo
Ponorogo	Jember	Sumenep		
Regency Level - Regents and Vice Regents Election - CENTRAL KALIMANTAN PROVINCE				
West Kotawaringin	East Kotawaringin			
Regency Level - Regents and Vice Regents Election - WEST KALIMANTAN PROVINCE				
Melawi	Sekadau	Sintang	Bengkayang	Kapuas Hulu
Ketapang				

Regency Level - Regents and Vice Regents Election - SOUTH KALIMANTAN PROVINCE

Hulu Sungai				
Tengah	Kota Baru	Banjar*	Banjar Baru*	Tanah Bumbu
Balangan				

Regency Level - Regents and Vice Regents Election - EAST KALIMANTAN PROVINCE

Kutai	Pasir	Bulungan
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Regency Level - Regents and Vice Regents Election - NORTH SULAWESI PROVINCE

Talaud Island	South Minahasa	Tomohon*	North Minahasa
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Regency Level - Regents and Vice Regents Election - CENTRAL SULAWESI PROVINCE

Poso	Toli Toli	Tojo Una Una
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Regency Level - Regents and Vice Regents Election - SOUTH SULAWESI PROVINCE

Wajo	Pangkajene Islands	Selayar	East Luwu	North Mamuju
Mamuju	Gowa	North Luwu	Barru	

Regency Level - Regents and Vice Regents Election - SOUTHEAST SULAWESI PROVINCE

South Konawe	Bombana	Wakatobi	North Kolaka
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Regency Level - Regents and Vice Regents Election - BALI PROVINCE

Tabanan	Karang Asem	Denpasar*	Badung	Bangli
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Regency Level - Regents and Vice Regents Election - WEST NUSA TENGGARA PROVINCE

Mataram*	West Sumbawa	Central Lombok	Bima	Sumbawa
Dompu				

Regency Level - Regents and Vice Regents Election - EAST NUSA TENGGARA PROVINCE

Manggarai	Ngada	East Manggarai	East Flores	East Sumba
West Sumba				

Regency Level - Regents and Vice Regents Election - MALUKU PROVINCE

Aru	West Seram	East Seram	North Halmahera	South Halmahera
Sura Islands	East Halmahera	Tidore Islands*	North Maluku	Ternate*

Regency Level - Regents and Vice Regents Election - PAPUA PROVINCE

Sarmi	Keerom	Bintang Mountains	Yahukimo	Warofen
Boven Digoel	Mappi	Asmat	Tolikara	Supriori
Yapen Waropen	Merauke	Jayapura*		

Regency Level - Regents and Vice Regents Election - WEST PAPUA PROVINCE

Telukwondama	Raja Ampat	Kaimana	Binturi Bay	South Sorong
Fakfak				

Regency Level - Regents and Vice Regents Election - BANTEN PROVINCE

Cilegon*	Serang
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Regency Level - Regents and Vice Regents Election - BANGKA/BELITUNG ISLANDS PROVINCE

Belitung	South Bangka	Central Bangka	West Bangka	East Belitung
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Regency Level - Regents and Vice Regents Election - GORONTALO PROVINCE

Bone Bolango	Pohuwato	Gorontalo
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(* = City, no sign = Regency)

Source: Participatory Policy Coalition List.

Politics or Professionalism?: Military Reform under Peril

After years of tardy reform, more threats are looming over civilian supremacy. A blatant challenge was manifested in the statement made by Army Chief of Staff (KSAD), Let.Gen. Joko Santoso on 22 March 2005, in which he mentioned the plan to add 22 territorial commands (*Komando Teritorial/KOTER*) in various conflict areas. According to some analysts, such statement should not be uttered by a TNI officer but should instead come from civilian authority from Ministry of Defense because a professional military officer has no authority in planning defense strategy.

The plan itself is also problematic in terms of geo-strategic and budgetary considerations.¹⁵ Indonesia, as an Archipelagic State, should enforce maritime-based security posture. Instead, the TNI has been more preoccupied with capacity building of the armed forces, in this case expanding the physical infrastructure of the armed forces. Other than weighing too much on the existing budget, the resources required to expand KOTER totally disregard the urgency of balancing military budget based on performance factor—between forces, between division, etc. In the 2005 budget, the allocation is as follows:

- Integrative security development program: Rp 2.1 billion (± US\$233,333)
- Armed forces development: Rp 9 billion (± US\$1 million)
- Naval forces development: Rp 3.18 billion (± US\$355,555)
- Air forces development: Rp 2.37 billion (± US\$263,333)

The Ambalat incident was like a slap on the face for Indonesia, that is lacking in deterrent capacity (particularly, naval and air forces) due to the imbalanced posture of the TNI. Long preoccupied with the disillusion that 'real' threats were local threats, now the TNI is helpless and hapless when confronted with actual threats from the outside.¹⁶

On other cases, the temptation upon the TNI to put their hands on politics again has proven to be too irresistible. On 13 April 2005, Gen. Endriartono Sutarto, TNI Commander, stated that military personnel can run for Pilkada while only be put on non-active status and retaining their membership in the TNI. This is a direct violation of Law no. 34/2004 on the TNI (article 29) and Election Laws.

Deluding Justice and Human Rights

Seven years after the May 1998 Violence, the hope for justice continues to

¹⁵Jaleswari Parmodhawardani, 'Koter dan Anggaran Pertahanan', in *Media Indonesia Online*, 30 March 2005.

¹⁶Rizal Sukma, 'TNI Pasca-Ambalat', in *Majalah Tempo*, 28 March 2005.

deplete as the Attorney General office remains disinclined to pursue human rights abuse cases occurred during the horrid May 1998. The country's short memories have given way for impunity. Perpetrators do not get punishment, yet they got promoted instead. The former Jakarta Military Commander Lt. Gen. Sjafrie Sjamsoeddin is now the Ministry of Defense's Secretary General) and Sjafrie's former assistant, Maj. Gen. Tritamtomo becomes Bukit Barisan Military Commander. Human rights defenders are pushing the Parliament to establish an ad hoc human rights tribunal.

The legal process over the death of Munir, a highly respected human rights defender, also has stagnated despite the formal establishment of the Executive's Fact Finding Team (EFFT). In addition to tardiness, the National Intelligence Body (BIN) is un-cooperative, if not obstructive. There have been leads that BIN had been in communication with the suspect, Pollycarpus, prior to the flight taken by Munir. BIN's condescending attitude towards EFFT is actually indicative of how the military is undermining the Executive's legitimacy.

On 31 May 2005, A. M. Hendropriyono, former BIN Chief, went to the Parliament to lobby over Munir probe after he reported two members of the EFFT to the police for allegation of defamation. He emphasized that in respect to the Parliament and the Police, he

will show up in all relevant summons. With the EFFT, however, he will have to see about that. The EFFT members remain adamant to continue the process of inquiring Hendropriyono.

The accumulative impacts of numerous disregards over justice and human rights would severe the democratization process in Indonesia. Such troubled record would bring bad international exposure to Indonesia even though Indonesia chaired the United Nation's Commissions on Human Rights meeting and would undermine Indonesia's legitimacy to play leadership role in the region.

Freedom of Information

Civil society coalition is struggling to amend the Bill of Criminal Code that poses direct threats to freedom of expression and freedom of information. There are at least 49 "rubber" articles in the Bill, for example: "Criminal Act of Revealing Secret" and "Criminal Act of Treason and Revealing State Secret". The vague definitions would allow one-sided interpretation of the state apparatus in apprehending journalists or anyone, who produces report that are "threats to national security".¹⁷

The Bill is in contrast to Law No. 49/1999 regarding the press. Invest-

¹⁷Source: www.imparsial.org/berita/feb2005/020105_ruu_kuhp_kebebasan_pers.htm, <http://www.kompas.co.id/kompas-cetak/0504/20/Politikhukum/1700036.htm>.

igative journalism, one of the most crucial spearheads of the war against corruption, may be obstructed, if not oppressed, if the Bill is passed by the Legislative. Investigation reports that probe into corruption cases by government officials may be overruled as revealing state secret and a criminal act.

Tears of Buyat

The long struggle for justice in the Buyat mining case has yet to be settled. After a controversial legal suit by civic groups, prolonged investigation, tons of conflicting research, detainment of five Newmont executives, charges against NGO activists for forging autographs of victims, and Newmont's decision to stop its operation, still the solutions are nowhere in sight. Many civic groups are skeptical that the government would settle this case and, more importantly, actually learn from Buyat case in dealing with multinationals, sustainable development and society's welfare.

How could a company with a million hectares of production forest that has mined 62.6 tons of gold over eight years not manage to increase the welfare of some 300 Buyat villagers? How could the government allow submarine tailings, which are illegal in the US, Canada and Australia? How could government environmental assessment (Amdal) procedures become so defective that not only the air and water are contaminated, but also the livelihood

of the villagers? A reporter noted how the case have emanated only during elections (1999 and 2004), and cautioned further how similar situation may occur during Pilkada in North Sulawesi on June 2005. "Multi-tiered approach", according to him, would come in handy to solve the problems that involved the many interests at play.¹⁸

Tentena Bombing

On 28 May 2005, two bombs exploded in the Tentena, Poso. The blasts killed more than 20 people and injured more than 50. The explosion is the most lethal bombing incidents in Poso for the last seven years. The incidents have severely compromised Indonesia's capacity to maintain security and order in the region and may de-legitimize the current authority.

There are suspicions that the bombing is related to the upcoming Pilkada in Poso (scheduled for 30 June 2005). Preparations towards Pilkada in Poso already have been marked by protests of manipulation and frauds. But an analyst raised the issues of corruption towards humanitarian aids for Poso, which have reached Rp 162 billion (approximately US\$18 million) since 2001, as a more relevant issue to the bombing incidents. The bombing

¹⁸Harry Bhaskara, "Are there lessons to learn form Buyat mining case?", in *The Jakarta Post*, 23 May 2005.

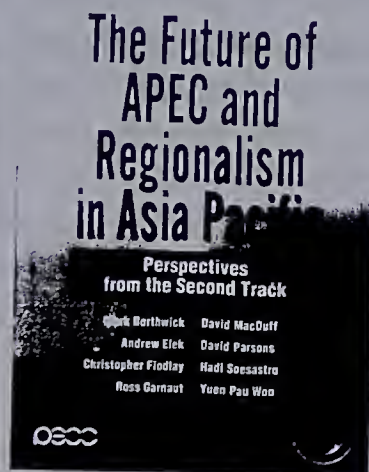
not only would overshadow the corruption cases that involve literally all levels of Poso regional government, but also perpetuate the conflicts between religious groups in Poso. There are calls for KPK to immediately probe

into such corruption if more bombings are to be evaded.¹⁹

¹⁹Arianto Sangaji, 'Bom Tentena dan Korupsi' in *Kompas*, 31 May 2005.

THE FUTURE OF APEC AND REGIONALISM IN ASIA PACIFIC:

PERSPECTIVES FROM THE SECOND TRACK



Published by: Centre for Strategic and International Studies (CSIS), Jakarta.

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Contributors: Marck Borthwick, Andrew Elek, Christopher Findlay, Ross Garnaut, David MacDuff, David Parsons, Hadi Soesastro, Yuen Pau Woo

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REVIEW OF ECONOMIC DEVELOPMENT

Sustainable and Relatively High Growth

Staff, Department of Economics, CSIS

INTRODUCTION

INDONESIA'S economy continues to show some signs of a sustained and relatively high growth. The economy is gradually shifted away from heavy dependence on private as well as public consumption to investment, including foreign investment, and foreign trade to stimulate growth. Hence, in the first quarter of 2005 the economy experienced a robust growth of 6.3%, albeit slightly lower than 6.7% recorded in the previous quarter. In addition to new investment and strong export performance, the sound economic performance has also been endorsed by continued favorable macroeconomic conditions and buoyant expectations.

The central bank has also done a good job in maintaining price stability.

In March, inflation shot upwards following the fuel subsidy reduction, but went down immediately in April and May. The exchange rate also weakened in April, as state-owned enterprises made massive dollar purchases for its operations. The central bank responded swiftly by intervening in the market while tightening the monetary policy, bringing the exchange rate back around Rp 9,400-9,600/US\$. In the coming months, the central bank is likely to keep tightening the monetary policy both to control inflation and to maintain a stable currency.

As noted, the relatively robust economic growth in recent months was a result of, among other factors, strong exports and the return of foreign investment. In the first quarter of 2005, the country's exports grew strongly by 31% relative to that in the same quarter

of the previous year. At the same time, imports also grew significantly by 27%. Meanwhile, in 2004, the current account was in a surplus of US\$ 2.9 billion, despite high services imports and interest payments. Capital account was also in a surplus of US\$ 2.2 billion, in contrast to a net capital outflow of US\$0.9 billion in 2003. The turnaround was the result of a US\$1 billion net inflow of foreign direct investment, a US\$2.8 billion in portfolio investments, and a lower debt repayment. Given the above, we expected that in the first quarter of 2005, current account and capital account would be in surpluses.

In addition to the above, there are some other developments that are worth mentioning. First, in March 2005, the government of Indonesia issued Presidential Instruction No. 5/2005 on the empowerment of the national shipping industry. The aim is essentially to give exclusive right to national shipping companies to transport inter-islands carriages, including import cargoes. Hence, the Ministry of Trade will soon issue several ministerial decrees, including the one that would require the inter-island transportation of 13 commodities carried by national flag vessels from Indonesian carriers. Those commodities will include fuels, general cargoes, woods, fertilizers, cements and crude palm oils, which currently account for 90% of the inter-island

cargoes. While the instruction and its related regulations will benefit the national shipping industry, the success of this program to promote the industry is questionable. The national shipping industry is in a very poor condition and insulating the industry from foreign competition is not the right way to improve its performance.

ECONOMIC GROWTH

Expenditure Account: From Consumption to Investment and Exports

The economy continued to follow relatively high growth path trajectory, from 6.7% in Q4-2004 to 6.3% in Q1-2005. Continuing favorable macroeconomic condition, buoyant expectations, resumption of investment and strong exports growth were behind the relatively strong economic growth in the first quarter of 2005. The sources of economic growth continued to shift from consumption to investment and exports. There was a decelerating trend in consumption growth from 3.8% in Q4-2004 to 3.2% in Q1-2005. The contribution of household consumptions to overall growth declined from 35% in Q4-2004 to only 31% in Q1-2005.

Export and investment growth continued to outperform other sources of economic growth. During Q1-2005, exports increased by 13.4%—a slight decline from the previous quarter, but

Table 1

COMPONENT OF GDP GROWTH: EXPENDITURE SIDE
(2000 Prices; % p.a. y-o-y)

	2004			2005
	Q2	Q3	Q4	Q1
GDP Growth				
Private Consumption	5.3	5.0	3.8	3.2
<i>of which food</i>	1.5	1.6	1.8	2.0
<i>of which non-food</i>	9.1	8.5	5.7	4.4
Government Consumption	4.7	-3.8	-1.3	-8.5
Investment	42.9	22.3	30.5	22.5
Exports	2.0	17.1	13.7	13.4
Imports	25.2	32.0	27.1	15.4
GDP	4.4	5.1	6.7	6.3
% Contribution to Growth				
Private Consumption	72.5	58.6	35.3	30.9
<i>of which food</i>	10.5	9.3	8.2	9.4
<i>of which non-food</i>	62.0	49.3	27.2	21.5
Government Consumption	7.8	-5.7	-1.8	-9.6
Investment	190.1	86.1	90.6	79.9
Exports	18.5	126.2	79.8	79.5
Imports	151.3	168.1	117.9	74.5
GDP	100	100	100	100

Source: CEIC Database

still much higher than the overall growth of 8.5% in 2004. High exports growth contributed to 80% of economic growth. The strong imports growth observed during 2004 fell in Q1-2005. The composition of imports growth showed that the decline in overall imports growth was the result of the decline in consumption and raw material imports, while the growth of imported investments continued to be strong. Investment growth remained strong, contributing to 80% of economic growth. However, the growth has declined from 31% in Q4-2004 to 22% in Q1-2005.

Production Account: Weak Primary Sector, Modest Manufacturing, Strong Services

The pattern of growth in the production side has not shown a substantive change: weak agriculture and mining sector growths, moderate manufacturing growth, and strong services sector growths. Primary sector growths, especially in mining, quarrying, oil and gas continued to lag: after a positive growth in Q4-2004, the growths of mining and quarrying fell back to zero in Q1-2005.

In contrast, almost all components of the services sector registered higher

Table 2

COMPONENTS OF GDP GROWTH: PRODUCTION SIDE
(2000 PRICES, % P.A. Y-O-Y)

	2004			2005
	Q2	Q3	Q4	Q1
GDP growth				
1. Agriculture	3.85	5.31	1.86	0.43
2. Mining	-9.13	-5.04	3.28	0.00
3. Manufacturing	6.87	4.78	7.17	7.05
4. Electricity, Gas, and Water	6.76	3.05	7.87	6.69
5. Construction	7.77	8.24	8.31	8.56
6. Trade, Hotel and Restaurant	4.09	6.90	9.41	10.02
7. Transportation & Communication	13.33	13.47	11.47	12.80
8. Bussiness Services	6.66	8.26	8.45	6.78
9. Services	5.12	4.73	5.04	5.14
GDP	4.38	5.10	6.65	6.35
% Contribution to growth				
1. Agriculture	14	17	4	1
2. Mining	-23	-11	5	0
3. Manufacturing	43	26	31	31
4. Electricity, Gas, and Water	1	0	1	1
5. Construction	10	9	7	8
6. Trade, Hotel and Restaurant	15	22	23	25
7. Transportation & Communication	16	14	10	11
8. Bussiness Services	13	14	12	10
9. Services	11	8	7	7
GDP	100	100	100	100

Source: CEIC Database

than average growth. Property boom led the 8.6% growth of construction in Q1-2005, accelerating from 8.31% in Q4-2004. Trade hotel and restaurant accelerate from 4% in Q2-2004 to 10% in Q1-2005. Similarly, deregulation and competition in transportation and communication sectors stimulated a strong growth of the sector by 12.8%.

Growth Outlook

Though the growth prospect is still fragile, there are several encouraging

signs. The government is actively seeking new investments. For example, President Susilo Bambang Yudhoyono's visits to US, Vietnam and Japan have been received enthusiastically by the business community. The partial resumption of military cooperation with US indicated improvement in Indonesia's human rights records. In the domestic front, the government signaled seriousness in efforts to curb corruption. However, amidst serious efforts to improve business climate,

the bombing in Poso, Central Sulawesi, as well as bomb threats in Jakarta, indicated security concerns. In addition, growth might be constrained by infrastructure bottlenecks, especially related to the supply of electricity. Hence we maintain our previous forecast of 5.3-5.5% in 2005.

MONETARY DEVELOPMENT

As mentioned earlier, inflation shot upwards in March following the fuel subsidy reduction, but went down immediately in April and May. The exchange rate also weakened in April, as state-owned enterprises made massive dollar purchases for its operations. The central bank responded swiftly by in-

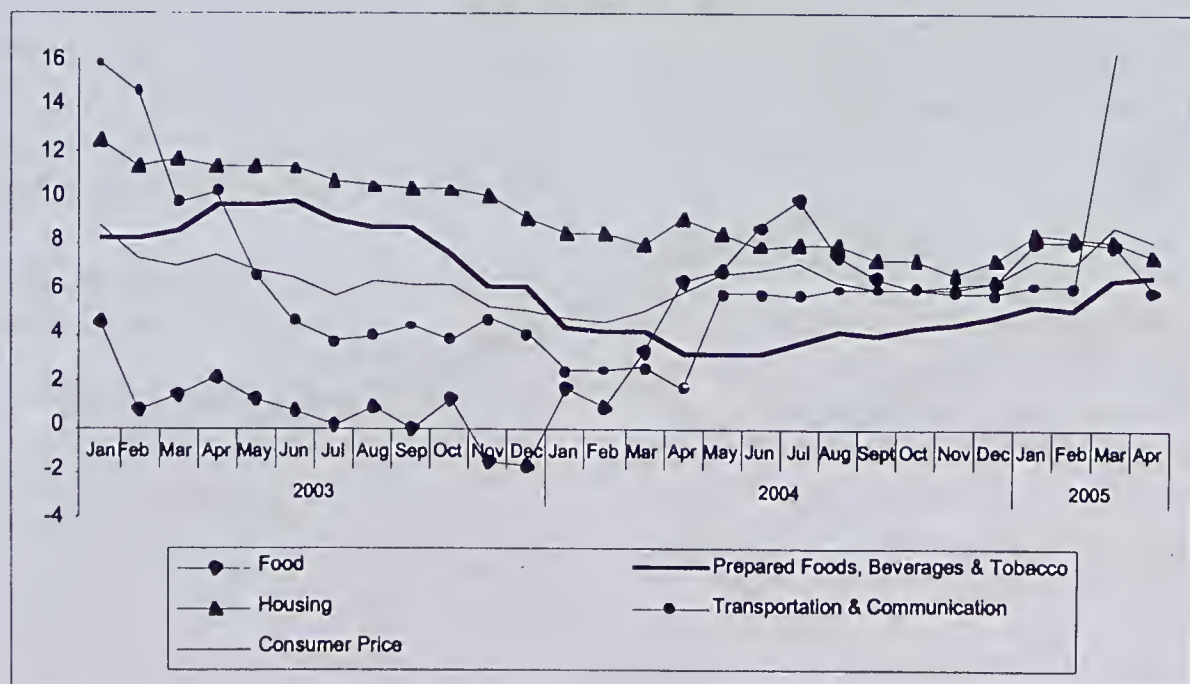
tervening in the market while tightening the monetary policy, bringing the exchange rate back around Rp 9,400-9,600/US\$. In the coming months, the central bank is likely to keep tightening the monetary policy both to control inflation and to maintain a stable currency.

Subsidy Removal Set Off Price Hike

As expected, the partial removal of the fuel subsidies set off price hikes in March. Annual inflation hit 8.81% in March, mainly driven by the increase in transport costs, i.e., local public transports and gasoline. The higher inflation was relatively short-lived:

Figure 1

INFLATION (Y-O-Y)



Source: BPS

following a tightening of monetary policy, annual inflation approached the pre-March level in April and May to 8.12% and 7.40% respectively. It appears that most of the price adjustments to subsidy removals are completed. At present, both domestic and imported inflations appear to be under control with the government's tightening of the monetary policy. There will be the typical adjustment of education costs in the third quarter of 2005; hence, we expect inflation to be at around 7.2 - 7.7% in the coming months.

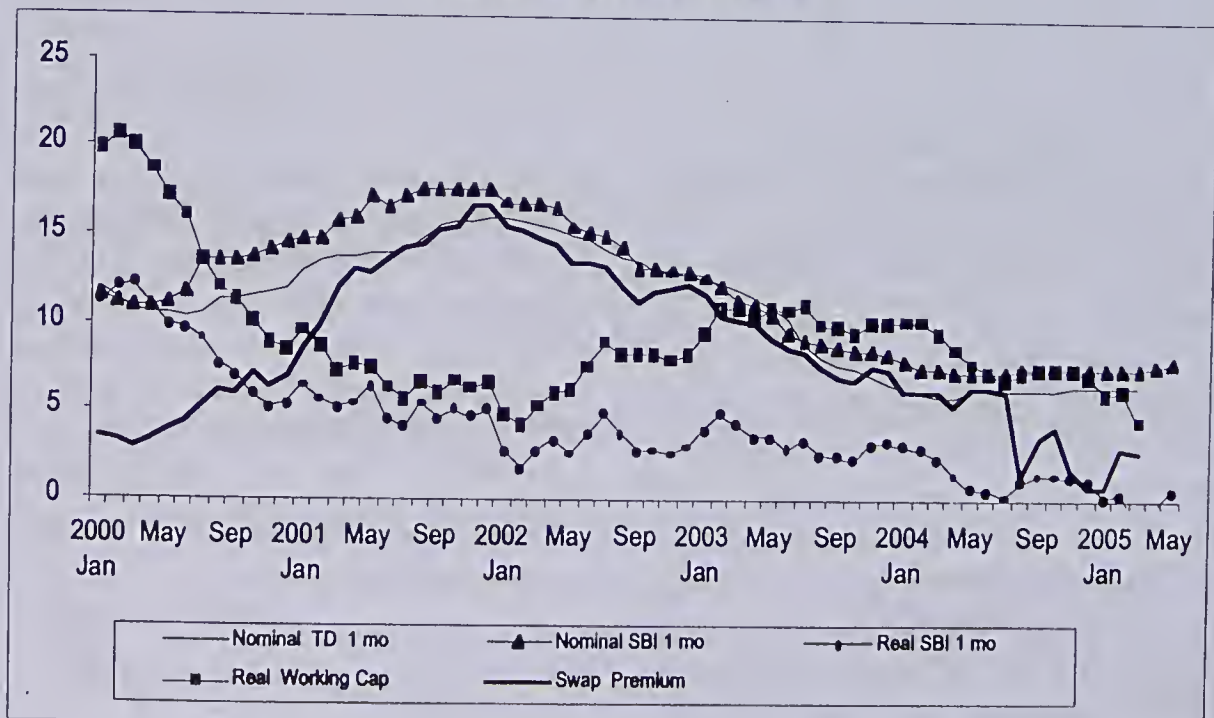
Aggressive Interest Rates Hikes, Fed Rate Hikes

After a standstill of nominal interest rates in Q4-2004 and Q1-2005 at

around 7.43%, Bank Indonesia (BI) finally moved aggressively to tighten the monetary policy. The benchmark interest rate, the 1-month SBI, increased from 7.43% to 7.95% between March and May, a 52 basis-points (bps) increase. Many analysts considered the move too late: real interest rates went negative in March and April as inflations soared with implications to the exchange rate (see Figure 2). However, by May, the real interest rate went back in the black at 0.55%. Meanwhile, domestic business environment continued to improve in Q1-2005. Between the end of Q4-2004 and Q1-2005, nominal working capital lending rates fell by 10 bps from 13.41% to 13.31% while one-month timed de-

Figure 2

VARIOUS INTEREST RATE



posit increased by 7 bps to 6.50 from 6.43. The gap between lending and deposit rates narrowed by 17 bps, from 6.98 to 6.81 between ends of Q4-2004 and Q1-2005, supporting the notion of declining domestic risks. Real lending rates went down drastically from 7.01% at the end of December 2004 to 4.5% in March, mainly because of the high inflation.

Strong Credit Growth in All Sectors

The strong growth of credit continued in Q1-2005, with all economic sectors growing at more than 20%. Outstanding commercial-bank credits grew an average of 28.1% (y-o-y) in Q1-2005, much higher than the 25.4% in Q4-2004. The annual growth of overall credit in March 2005 was 29.1%. The strongest growth can be seen in the mining sector, followed by the unclassified (others) and trade sectors, respectively at 52.5% and 30.8%. Manufacturing was in the fourth place, with a strong growth of 25.8% in March 2005.

Rupiah/US\$ Weakened Slightly, Stock Market Stagnant

As suggested in the previous report, the removal of the fuel subsidy would weaken the Rupiah against the US dollar: the average exchange rate in the first two months of 2005 was Rp 9,223/US\$, and it fell to Rp 9,456/US\$ in the two-and-a-half months after the removal of the fuel subsidy.

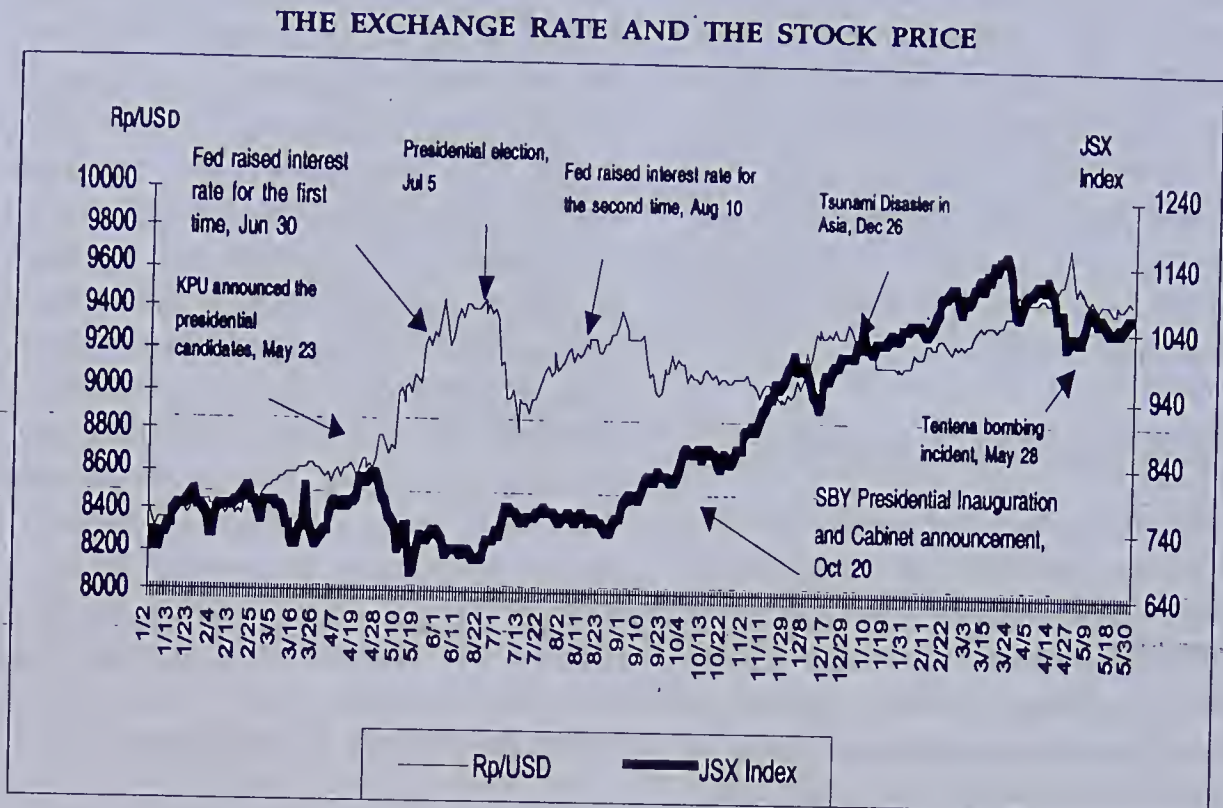
However, the subsidy removal was not the only culprit for the weakened Rupiah: there are two others. *First*, the Federal Reserve increased its interest rate twice by 25 bps on 22 March and 3 May, in a period when the real rate for SBI, the benchmark interest rate, was negative. *Second*, there was a massive need of major state-owned enterprises, particularly the petroleum company, PT Pertamina, and the electricity company, PT PLN, for US dollars at the end of April. Both companies made their dollar purchases from the market, resulting in the sudden fluctuation of Rupiah. The government responded by requiring PT Pertamina to purchase from the central bank, BI, with a daily quota of US\$50 million.

Meanwhile, the stock market was relatively stagnant. On average, the performance of the stock market in the first two months of Q2-2004 was not significantly better than Q1-2005: the JSX index averages in the two periods were 1069 and 1068.

Prospects

Fundamentally, the economy is in a good shape and moving on the right track. The government managed to reduce the fuel subsidies without creating major political and economic instabilities. A couple of month later, the macroeconomic impact of the policy appears to be put under control, suggesting a government in control of the macroeconomic policy.

Figure 3



Ahead, the government will continue to maintain its tight monetary policy to achieve its inflation target of below 7% in 2005 and maintain the stability of the currency in anticipation of further Fed-rate hikes. In the coming months, we expect to see inflation at 7.2-7.7%. The effect of the security disturbances, particularly with the recent bombing in Poso, Central Sulawesi, and bomb threats around Jakarta, is likely to be temporary. Assuming no major disturbances, we expect the exchange rate to maintain stability, or even strengthen, at around Rp 9,250-Rp 9,650/US\$ in the coming months.

BALANCE OF PAYMENT

In Q1-2005, exports grew strongly by 31% to US\$19.8 billion. Imports also grew significantly by 27% at US\$12.9 billion. In 2004, the current account was in a surplus of US\$2.9 billion, despite high services imports and interest payments. Capital account was also in a surplus of US\$2.2 billion, in contrast to a net capital outflow of US\$0.9 billion in 2003. The turnaround was the result of US\$1 billion direct investment net inflows, US\$2.8 billion in portfolio investments, and a lower debt repayment. We expected that in the first quarter of 2005, current account

and capital account would be in surpluses.

EXPORTS

In Q1-2005, exports reached US\$ 19.8 billion, a strong growth of 31% compared to the average growth of 17% in 2004. The strong growth was driven by the manufacturing sector, such as clothing, machinery and mechanical equipments, wood products and furniture and lightings. There was also increased demand for mining products such as coal, ores, copper and other minerals as a substitution to a relatively cheaper source of fuel. Meanwhile, in 2004, exports growth was driven by the strong performance of non-oil and gas sectors, including palm oil, electronics, clothing, coal, and tin.

The sharp increase in demand came from Indonesia's main export destinations, such as US, Japan, Singapore and China, altogether accounted for about 47% of Indonesia's total exports. Demand from these destinations grew by 41%.

Despite the relatively high exports growth, we think there is still room for improvement. As the government addresses export-related problems of illegal levies and inefficient port handling, we can expect to see even higher sustained exports growth in 2005. Moreover, factories have begun to ex-

pand—this was indicated by the high increase in capital goods imports. The government also deregulated exports of commodities, such as diamond, silver and manioc; however, it was also considering exports restrictions on several agricultural commodities, such as cocoa and cashews, to the detriment of Indonesian exports.

IMPORTS

Q1-2005 also witnessed an import growth of 27% for a total import of US\$ 12.9 billion. Oil-and-gas imports accounted for about 30% of total imports, showed an increase of 51% from those in Q1-2004, while the remaining (non-oil) imports, mainly raw materials and capital goods, increased by 20%. Imports of raw materials increased by 26.2% while imports of capital goods increased by 38%. The relatively high increases in raw materials and capital goods imports indicated that businesses and factories were waking up from their slumbers.

The positive trend in capital goods imports seems to continue as factories expand their capacities. Meanwhile, imports of raw materials will also rise as Indonesian production sectors are highly dependent on imported raw materials.

CURRENT ACCOUNT

A preliminary figure from BI showed that the year 2004 exhibited a

trade balance of US\$21.23 billion, with a much lower current account surplus of US\$2.9 billion. The decline in the current account surplus was due to the decline in trade surplus, due to high services imports and interest payments. The current account surplus was made possible by positive government transfers and workers remittance.

CAPITAL ACCOUNT

In 2004, capital account was in a surplus of US\$2.2 billion in contrast to a net capital outflow of US\$0.9 billion in 2003. The turnaround was due to direct investment inflows of US\$1 billion, a US\$2.8 billion portfolio investment, and a lower debt repayment.

We expected further increases in direct investments and portfolio investments in 2005, as approved FDI's reported by the Investment Board (*Badan Koordinasi Penanaman Modal/BKPM*) in Q1-2005 showed a 174% increase compared to the same period last year.

OTHER ISSUES

Investment Coordination under The Ministry of Trade

The restructuring of government agencies undertaken by the President Susilo Bambang Yudhoyono included placing Indonesia's Investment Coordination Board (BKPM) under the Min-

istry of Trade. The investment agency previously reported directly to the president.

The placement of the investment board under the Ministry of Trade is aimed at improving coordination on investment-related policies. Investment involves numerous sectors and the Ministry of Trade must help the investment board coordinate its policy for each sector. In the future, the investment board is expected to focus on promoting investments and setting up conditions to improve the investment climate, instead of providing investment approvals and permissions. This will also improve coordination among ministries, particularly to attract more investments.

Fiscal and Investment Incentives to Promote Energy Sector

Despite being one of the world's most important energy producers, Indonesia is currently facing various problems in energy sector. The daily level of oil production has been declining for the past few years, while the heavily subsidized energy consumption, particularly of oil, has increased significantly, forcing the government to run higher budget deficits. Recently, the government of Indonesia has initiated several programs to promote the development of the energy sector.

To maintain the oil production, government gives incentives for companies willing to invest in and operate small and marginal oil fields. These small oil fields, scattered in many regions, are expected to contribute more than 50 thousand barrels per day or around 5% of the current level of production.

The government will also provide a number of fiscal and investment supports to maximize the use of natural gas in order to reduce oil dependence. One of the efforts is by signing the agreement for Pangkah Project with the US-based energy firm, Amerada Hess Corporation. Amerada made the commitment to invest about US\$500 million for the next three years to develop offshore gas and oil concessions in Pangkah, East Java. Pangkah is expected to supply about 440 billion cubic feet of natural gas over a 20-year period, or approximately 100 million cubic feet per day.

In addition, the government will provide support to speed up the construction of an integrated gas transmission network that will link Java, Sumatra and Kalimantan. It will exempt participating investors of import taxes for materials and capital goods needed for the gas network construction. The government will give its support in the form of accelerated project approvals and tender processes. Another project called Integrated Indonesian Gas Pipeline (IIGP), led by the national

gas company, *Perusahaan Gas Negara* (PGN), to link gas production points in East Kalimantan, South Sumatra, Riau and East Java with industrial and household consumers in Java and Sumatra has also begun. It is expected that this project will promote the use of natural gas as an alternative energy source in Indonesia.

In the midst of the routine power cuts across the country, the government plans to open bidding for a power plant construction. This new power plan is valued at US\$500 million and projected to start in 2009. PLN is also planning to have its first Liquefied Natural Gas (LNG) terminal in order to boost and secure a natural gas supply for its power plants in West Java.

However, the success of all those efforts will depend on the government's commitment. Many investors expressed their pessimism about investing in the energy sector, especially after the Indonesian Constitutional Court's annulment of chapters in the new law on power and energy, as well as the ongoing dispute between Exxon-Mobil Oil Indonesia and PT Pertamina. Add to that, problems with local regulations: Recently the Joint Operation Body of the Sukowati Oil Field in East Java made a US\$600,000 loss as drilling operation was halted due to ongoing negotiations regarding the local government's share in the oil-

field. Here, the central government should have taken swift actions, as profit sharing from natural resources is regulated in the decentralization law.

Regulations Concerning The Use of Domestic Shipping

In March 2005, the government of Indonesia issued Presidential Instruction No. 5/2005 on the empowerment of the national shipping industry. This instruction requires related cabinet members and local government to issue and implement necessary regulations to support the sabotage principle, which requires all inter-islands carriages to be conducted by Indonesian-flag shipping lines. The instruction also required official import cargoes to be carried by ships from national shipping companies. Within a certain period of time, this instruction is expected to be implemented fully to support the development of national shipping carriers.

To support the Presidential Instruction, the Ministry of Trade will soon release several ministerial decrees. One of the regulations would require the inter-island transportation of 13 commodities carried by national flag vessels from Indonesian carriers. Those commodities will include fuels, general cargoes, woods, fertilizers, cements and crude palm oils, which currently account for 90% of the inter-island cargoes.

While the instruction and its related regulations will benefit the national shipping industry, the success of this program to promote the industry is questionable. The national shipping industry is in a very poor state and cannot compete with foreign fleets in many aspects, such as in size, age, and technology. This poor state was a result of various problems, including poor financing schemes, unfavorable business environments and lack of incentives for new investments. Requiring inter-island transportation to be carried by national fleets will not solve the problem.

The regulation will only promote joint efforts between national shipping industries, as a license holders, and foreign companies, as operators. Currently, it is estimated that more than 60% of inter-island cargoes are carried by foreign fleets, due to the lack of capacity of national shipping lines. The shipping industry cannot immediately increase their capacity to fulfill demands of domestic transportations. Inter-island transportation would still be conducted by foreign fleets, in collaboration with national companies, while the empowerment of the shipping industry will be forgotten. However, one thing is certain: transportation costs will go up and Indonesia's already weak competitiveness will be eroded further.

Indonesia and Japan Sets To FTA Talks

During his official visit to Japan in early June, President Yudhoyono planned to start negotiations on Indonesia-Japan Economic Partnership Agreement (IJEPA). This agreement is a broader version of the bilateral Free Trade Agreement between the two countries. While both countries have been very active in trade liberalization efforts, this EPA would be the first bilateral trade agreement ever negotiated by Indonesia. The preliminary talks on this agreement have begun a couple of months ago, involving government officials, private sectors and academics from the two countries.

The Economic Partnership Agreement would not only broaden market access for trade in goods, as traditional FTA does, but also broaden market access for services, investments and labor. In addition, the EPA will also cater economic cooperation's in the forms of technical assistance and capacity building. Indonesia aims for greater access for its agricultural,

fishery and forestry products. It also would like to have more flexible access for Indonesian workers to enter the Japan market. These are difficult objectives, given the sensitivity of agricultural imports in Japan and the constraints of Japan's labor market to unskilled and semi-skilled workers.

Whether this agreement will bring maximum benefits to Indonesia will depend on various factors. Greater market access should be complemented with stronger domestic industrial development to produce more competitive and high-quality goods. The EPA can also serve these purposes. Investment facilitation in this agreement would provide greater confidence and assurance, which in turn might boost Japanese investments in Indonesia. The bilateral agreement with Japan is expected to integrate Indonesia further in the Japanese production network in East Asia. The integration will provide solid foundation for industrial development and increase competitiveness as well as market penetration into the Japanese market.

Islam and Democracy: Some Problems of Democratization in the Muslim World

Riza Sihbudi

INTRODUCTION

DEMOCRACY¹ is a political system idealized by people all over the world. Almost all regimes in the world—either in capitalist or communist states, in developed or developing countries, in the North or the South—implicitly or explicitly use the word 'democracy' in their political systems. Although with some frills added to the word 'demo-

cracy', most countries in the world have claimed themselves as democratic states. Like other countries, the Muslim and Arab countries also find it difficult to avoid "democratization wave" that has become one of the main political agendas in the 21st century, alongside with the issues of environment and human rights. "Democracy is imperative for the Arab world," said Taha Abdel-Alim, the Vice of Director of Al-Ahram Centre for Political and Strategic Studies (ACPSS).²

¹The term 'democracy' originally came from Greek words '*demos*' that means the citizens and '*kratia*' that means government. The question is: does the word '*demos*' really mean citizens as it is interpreted? Not necessarily. What is really considered as citizens in the 5th century Athens, according to Dahl, is very different from what is now called 'citizens'. For the old Greek people, 'citizens' are no more than a quite small group of people in a small town. Therefore, what we call 'democracy' in the original term is different from the contemporary democracy. The old Greek democracy was inherently limited to small-scale systems (Dahl 1989).

Nowadays, even dictators seem to believe that to legitimate their power indeed requires one or two words of democracy (Dahl 1989). The core of the stable democracy will continuously have a great influence in the world. In most countries, either ruled

²Interview with Dr. Taha Abdel-Alim in Cairo, Egypt (September 1995).

by democratic or authoritarian regimes, their leaders will always declare a "government by the people" as one of their legitimating basis; but in reality most countries are ruled by undemocratic regimes. Nevertheless—what the Western media called—"the most totalitarian state" in the Muslim world, such as Iraq under Saddam Hussein, finally changed when they held a general elections—for the first time—in October 1995 and then in 2000, although the elections did not able to replace the position of President Saddam Hussein, until he was toppled by the US invasion in May 2003.

"We are practicing democracy according with our culture, not the democracy as dictated by the Americans," said Saddam Hussein. According to Abdel-Alim, the Western style democracy is impossible to be fully implemented in the Arab world. But, there are many universal values in democracy, such as the spreading political participation for the people, the law enforcement, and the control toward the ruling regime. People cannot speak about the freedom without the existence of the opposition, the parliament, the multiparty system, and so on (Apter 1969). Indeed, democratic society needs freedom, general elections, the House of Representatives, and some other democratic elements.

This paper attempts to explore the debates on the problems of emulating democracy in the Muslim world.

RELIGION AND DEMOCRACY

In early 1990s, a leading political American scientist, Samuel P. Huntington, wrote an interesting analysis about the correlations between the religions and the democratization in the world. According to Huntington, Protestant was the first religion that encourages democratic process. He quoted a research by Kenneth A. Bollen in 1979 which concluded that "the greater the proportion of the population that is Protestant, the higher the level of democracy." Contrarily, the Catholic was the religion that detaining democratization.

The doctrines of Protestantism emphasized the individual cognition—and unlike the Catholic teachings—they constitute the practice for their followers to communicate with God directly. The Protestant Church Organization is considered more democratic compared to the Catholic Church, which adhere the system of hierarchy (Huntington 1993). Huntington quoted the Weber thesis that Protestantism encourages the economic enterprise, the growth of the bourgeois, the capitalism, and the economic welfare, all of which are believed to have flattened the way for the growth of democratic institutions.

The Catholic religion, however, turned out to have encouraged democratization, as shown by the fact that between 1974 and 1989 two-third

of the countries in the world—whose population in majority are Catholics—had become democratic. According to Huntington, it happened because of the changes that took place in the Catholic Church itself. In the past, the Catholic Church was seen as very close to the establishment or the ruling elites, but then they become the agent of change; supported the weakness, and against the dictatorship. In Latin America, for example, they were then better known as the “theology of liberation.”

Meanwhile, Confucianism, though succeed in encouraging the economic growth, they become detaining factor for democratization, such as in PRC, Taiwan, Korea, and Singapore. “Almost no scholarly disagreement exists on the proposition that traditional Confucianism was either undemocratic or antidemocratic” (Huntington 1993). Thus, Huntington is questioning: can Confucianism transform the discouraging into the encouraging factor for democratization as well as Catholic. He said that the Philippines and Japan became more democratic because of “the American factor.”³

Then, how about Islam? Like Confucianism, Islam remains a discouraging factor for democratization. Historically, until the end of the 20th century none of the countries—which are mostly dominated by Muslim population—exercised a fully democratic political system. According to Moataz A. Fattah (2002), in 1975 predominantly Muslim countries were responsible for 25% of the world’s non-democratic regimes, while in 2001 they were responsible for 45% of the world non-democratic regimes. Besides, no single Muslim country is considered to be a consolidated democratic state. In the modern history, Turkey under Kemal Ataturk could become a liberal-democratic state because of Ataturk’s success in replacing Islam with secularism (Huntington 1993).

In the Arab world, it was only the pre-1975 civil war Lebanon that became the democratic state, which was at that time dominated by the Maronite Christians. When the compositions of Lebanese population changed, in which the Muslims became the majority, democracy in the country broke up concurrently with the outbreak of the 1975 civil war. It remains questionable whether Islam can move from discouraging to encouraging democratization. Furthermore, Islamic concepts of politics “differ from and contradict the premises of democratic politics” (Huntington 1993).

³According to Dr. Patricio N. Abinales (Associate Professor in the Center for Southeast Asia Studies, Kyoto University), in 28 October 2003, that the real political power in Philippines is still dominated by certain political clans or families. So, the question is: Is it true that the Philippines has fully implemented democratic political system?

Huntington's arguments on the correlation between the religions of Protestant, Catholic, Confucianism, and the democratization, may be right or may be wrong. However, his view on the relations between Islam and democracy—particularly on the democratization in the Muslim world—needs to be underlined. First, are there any political systems that are fully democratic and "without flaws"—as Dahl (1989) and Apter (1969) have ever said? The United States of America has always to be the myth as "the champion" of democracy and the defender of human rights in the world.⁴ But, can we defend the myth after the US invasion and occupation in Afghanistan and then Iraq⁵? More important, can a country still be considered as the champion of democracy if its behavior in the international politics tends to be out of controls and tyrannical, particularly towards the small and the weak states?

⁴According to Dahl, even "the American Constitution is far from the only possible basis for democratic system—and that it may, indeed, be far from an ideal one."

⁵The serious implication of a US invasion of Iraq is a growing anti-US sentiment in the Arab world in particular and in the Islamic community in general. So far the Arab and Islamic communities have critically spotlighted the US policy, which always fully supports human rights violations committed daily by Israeli authorities and military forces against civilians of Palestine. The US invasion and occupation on Iraq just strengthen the assumption that the US in fact is fighting Arab nations and people with Islamic majorities instead of fighting terrorism.

In the Middle East and Muslim world, the US precisely supported the regimes that are anti-democratic, and oppressor of human rights, such as Israel and some Arab states.⁶

Second, Huntington considered Israel, Turkey under Ataturk and the pre-1975 civil war Lebanon as the Middle East countries, which implemented democracy. Is it true? Even Huntington

⁶In the political reality, the US government remains "hostage" of Israel. US, for example, would always tend to protect and justify whatever actions Israel took, even by clouting international opinion and political good-conduct. No US President would ever dare to "abandon" Israel. In 1991, US President George Bush tried to put pressures on Israel by postponing a US\$10 billion settlement project for Russian Jewish community in the West Bank and Gaza Strip. He was not reelected to office. It is reasonable enough for US government, in its campaign for support and sympathy from the American Jewish population, to reject any possibility of the United Nations Security Council sanctions against Israel. It is important for most US political elites to enhance this support from among the American Jewish lobby, especially those in the American-Israeli Political Action Committee (AIPAC). Sandra Mackey (1994) wrote that AIPAC was "the most powerful lobby in Washington." It is clear that the US remained steadfast in its Middle East policy namely, to continue to protect the interests of Israel. Besides, as Mackey pointed out, Washington's increasingly pro-Israel policies had to do with the Christian revival in the US. She wrote, "Ironically, right-wing American Christians defended Zionists nationalism more zealously than many Israelis ... To them, Israel is not a state exhibiting the ambitions and foibles of nation-state but Biblical fulfillment. Hence any challenge to Israeli government policies, no matter how detrimental they are to the stability of the Middle East, is challenge to God" (Mackey 1994).

has said that Israel was the "most democratic country" in the Middle East. However, Apter (1969) described Israel as a pyramid given its authoritarian process of decision-making. Regarding values, he wrote that Israel had a sense of solidarity. In other words, they are democratic and plural, albeit elitist. Israel's political system is basically rooted in ideological and interest factions; but at the level of leadership there is also the strong tendency toward accommodations and consensus. This means that even if the elites of subcultures like the Likud, Labor and religious-based parties were embroiled in intensive competition leading to political instability, they would voluntarily strive to avoid cultural fragmentation; this is known as "consociational democracy" (Apter 1969). Through such democracy, the ideological and interest factions among society change into an effective plural democratic arena at the elite level. However, Israel's democracy only functions internally; foreign policy, especially towards Palestinians, has contradicted their values of democracy and human rights. It is this aspect that has been overlooked by experts like Huntington.

Indeed, Turkey under Ataturk implemented the liberal democracy on the one hand, but on the other hand he was very repressive towards the Islamic religion and the good Muslim community. Actually his policies are anti-democracy. Of course, the pre-

1975 Lebanon apparently had implemented a democratic political system, but actually at that time they ran an "undemocratic democracy." Why? Lebanon implemented a "quota system" in which the president must be from the Maronite, the prime minister must be a Sunni Muslim, the speaker of the parliament must be a Shiite Muslim, and so on. Can the system be considered democratic?

Third, as stated as by Huntington himself, democracy is identical with the Western Christian Connection, because it was born and has grown in the Western and Christian culture. Understandably, democracy seems difficult to develop in the non-Western and non-Christian culture, such as Islam or Arab (might be Confucianism too).

ISLAM AND DEMOCRACY

Unlike Huntington, the Islamic expert from Germany, Gudrun Kramer (1993), said that the mainstream of Islamic activists and thinkers could accept some basic elements of political democracy, such as pluralism (in the context of Islam), political participation, government accountability, law enforcement, and human rights. However, they have refused the liberalism elements, particularly those contradicting Islamic values, such as free sex or lesbianism and homosexuality, even though it is the will of the majority.

In other words, for the followers of the "middle way" option, democracy is a "good" system and this would be in line with Islamic schools. However, democracy has not become the "perfect" system yet. Sometimes, democracy even brought up some contradictions. There is an interesting illustration from Iran. When the Ayatollah Khomeini has just succeeded in taking over power in the 1979 Islamic revolution, almost everyday he got flatteries from thousands of his followers and supporters. He then received his main rivalry, Ayatollah Shariat-Madari, the founder of Islamic Peoples Democratic Party of Iran. Shariat-Madari demanded Khomeini to stop those flatteries. Khomeini said, "once you asked me to establish the democratic system, but now you ask me to limit people's will." This could precisely illustrate the contradictions within the democratic system.

It is clear that some cases in the Middle East countries dominated by Muslim community reflected the difficulty in establishing the democratic system. On the one hand, there are many states—such as Saudi Arabia—that openly rejected the democracy, but on the other, some democratic processes were halted purposely by the external powers to prevent the Islamic party from taking a power.

In the mid-1990s, the issue of democratization in the Muslim world, like in other parts of the world, has been

gaining momentum especially since the fall of Communism in Eastern Europe and the Soviet Union and after the end of the Gulf war of the US-led coalition against Iraq in 1991. To some extent, the phenomenon has correlations to at least four events. First, the political unrests in Algeria, which was the result of halting democratic process in the effort to prevent the "fundamentalist" Islamic Salvation Front or FIS (*Front Islamique du Salut*, or *al-Jabha al-Islamiyyah li al-Inqadh*) from taking a power in 1992. Second, the political "reform" in Saudi Arabia, where the King Fahd on 1 March 1992, formed—for the first time in 50 years—what they called *Majelis Syura* (the Consultative Assembly) that consists of 60 members, although its political role in the kingdom was still unclear. Third, the success of the Turkey's *Rifah* (Welfare) Party for gaining the majority in the December 1995 general elections. Fourth, the phenomenon of the 1996 general elections in the Palestinian authority.

At that time, one of the Iranian leading newspapers, *Kayhan International*, published some articles on the debate between Islam and democracy.⁷ The

⁷See for example, "Silent Collusion Against Democracy", *Kayhan International* (14 January 1992), A. Afraz "Algeria: Bye Bye Democracy," *Kayhan International* (16 January 1992), Dr. Syed Farooq Hasnat, "Political Reforms in the Persian Gulf," *Kayhan International* (16 January 1992), "A Golden Opportunity to Understand the Concept of Democracy," *Kayhan Interna-*

end of the 1991 Gulf War also encouraged the issue of democratization in Middle East in the decade of 1990s. The demands toward the more democratic political system did not occur only in Kuwait as the victim of the Iraqi invasion, but also in Iraq itself. In other words, in Persian Gulf (not only in Kuwait but also in Iraq itself and Saudi Arabia) there is a need for more democratic government and political system. Kuwait and Iraq are two "extreme" examples of the "undemocratic"—if not "totalitarian", "authoritarian", or "dictatorial"—Arab states.⁸ As we know, regimes in the Arab world generally get into power either by heritage (monarchy) or military *coup d'états*. Kuwait is an example of the first, and Iraq the latter.⁹

In Algeria, one of the reasons used by the military regime—that was fully supported by the Western countries—to prevent the FIS from taking a power is when the Islamic party ruled the country so the democracy will not long live. In other words, the Algeria military

regime and the Western countries assumed that FIS just wanted to exploit the democracy to create a new anti-democratic system. Indeed, since their inception around the early of 1990s, Islamic political movements have gained an increasing support in the Muslim world. These movements present a convincing alternative of the authoritarian regimes in the region. This popular support was reflected in the results of the elections in which the Islamic movements and parties were allowed to participate (Khafagy 2002). However, the Western people considered this phenomenon as the "new threat."

Across the Western world, the finger is pointed at a supposed new threat to global security that is taking place from Central Asia to Algeria, from the streets of Paris to the deserts of Sudan. Such a new threat is understood as Islamic 'fundamentalism' (Lucy Johnson 1993). According to Tom Heneghan (1992) of *Reuter*, with the demise of Soviet Union, Islamic "fundamentalism" apparently has replaced the Communism as the main threat as seen by the group of NATO states. Warnings of a growing threat from Muslim countries along the southern flank of the Atlantic Alliance echoed through speeches at a high-level defense conference in Munich (called "the Munich Conference on Security Policy") sponsored by NATO in February 1992.

tional (18 January 1992), and "Islam and Freedom Can Be Friends," *Kayhan International* (23 January 1992).

⁸Michael C. Hudson (1991) identified the Arab countries as the "*mukhabarat* (national security) states" or "authoritarian-bureaucratic states."

⁹Kuwait and Iraq are called "Islamic states" because of their membership in the Organization of Islamic Conference and because the majority of their population are Muslim.

Robin Wright (1992), a *Los Angeles Times* correspondent, agrees with those opinions. In Wright's view, thirteen years after the Iranian Islamic revolution wrought the "world's first modern theocracy", Islam is once again emerging as a powerful political idiom. Not only in the Middle East, but also from north and west Africa to the former Asian republics of the Soviet Union, from India to western China, Islam is increasingly "a defining force" in evolving political agendas. "The new burst of activism has reached such proportions that, with the demise of communism, Islam is increasingly—and erroneously—being perceived as one of the future ideological rivals to the West".

Islamic "fundamentalism" is a term that has become so extended in its usage to refer to various forms of Islamic expressions: from "radical" political activities (i.e., "terrorist" groups as synonymous with Islamic "fundamentalism"), a political ideology (Islamic Republic of Iran as a "fundamentalist" state), to the phenomenon itself (Islamic resurgence as a revival of "fundamentalism") (Santosa 1987).

However, not only in Algeria, in which Islam and the Islamic movement or "fundamentalism" have been widely reported to be anti-democratic. The similar case is Turkey, when by the name of democracy the military—which was also supported by some Western governments—toppled the Rifah gov-

ernment (under the PM Necmettin Erbakan) in 1997. Indeed, most political regimes in the Muslim world attempted strongly to circumscribe the political ascent of the Islamic parties through restrictive methods that ranged from total legal ban, political repression, to legal restrictions on Islamic political parties. Hence, the Turkish military regime had to be tolerant with Islamic parties in order to overcome political and economic crises, only to re-introduce the laws restricting these parties in more favourable national and international environments (Khafagy 2002).

The question is: Why does West regard Islamic "fundamentalism" as a threat? Is it because Islam incompatible to democratic values? Sheikh Rashid Ghannouchi, a leading religious figure and leader of *Hizb al-Nahda* (Renaissance Party) movement in Tunisia, argues that the West has no reason to see Islam as a threat to modern civilized values and democracy (*Kayhan International* 23 January 1992).

There are two reasons to justify that Islam and the Islamic movement or "fundamentalism" have been widely reported to be anti-democratic (*Kayhan International* 23 January 1992). First, it is the conflict over power. Nowadays the "secular" elites in the Muslim world are in control of power, but they are facing the increasing challenges by the Islamic movement or "fundamentalism". In some cases, the latter has

overwhelmed "secular" forces (such as in Iran, Sudan, Pakistan) or is sharing power with them both in the executive and legislative branch (such as in Lebanon, Yemen, Kuwait, Tunisia, Jordan, and Indonesia). In such a struggle the secularists' fear is understandable.

The second reason is "the conflict of civilizations". Today the West dominates the world culturally, politically, and economically and has thus marginalized the other cultures of the planet. According to Hyman (1991), Muslim "fundamentalism" has grown under the pressures and challenge of foreign—and specifically Western influences in Muslim lands.¹⁰ The Islamic revivalism is therefore seen as being against the prevailing civilized values, especially so since the collapse of the Communist "empire".

In such a situation the "secular" forces of the Muslim world and the West have a common interest in denying validity to the Islamic opposition. Since denying the opposition's right to voice goes against democratic principles, it is surprising that those who

deny such opposition accuse the Islamic movement of being anti-democratic.

If democracy means the liberal model of government prevailing in the West, that is, a system under which the people freely choose their representatives and leaders in which there is an alternation of power as well as the protection of all freedoms and human rights of the public, then the Muslim will find nothing in their religion to oppose democracy, and it is not in their interest to do so anyway. "There is no contradiction between Islam and human rights. If in many Islamic countries human rights are flouted, this is because of a wrong interpretation of Islam," said Shirin Ebadi (2003). Government in Islam embodies a civilian authority whose political behavior is answerable to public opinion. There is, therefore, no place for theocracy in Islam in which policy-making can be opposed either by individuals or political organizations. Indeed, opposing the authorities' mistakes is one of the most important duties in Islam (*Kayhan International* 23 January 1992).

Hamid Enayat (1982), a leading Iranian intellectual, agrees to that argument. He says that if democracy means a governmental system opposed to the dictatorship, Islam is compatible with democracy because there is no place for dictatorship government in Islam. The principles of all government policies and activities in an Islamic state do not stem from individual will, but

¹⁰According to him, it would be quite wrong to imagine the spread of "fundamentalist" ideas as being uniquely Muslim. Fundamentalists' religious views are in fact flourishing openly in many different societies, with religion and politics intertwined for, (among others), Zionists in Israel, Sikhs in India and "born-again" Christians in the USA.

the *Syariat* of the Holy Qur'an and *Hadits* (Prophet Muhammad's traditions).

Meanwhile, Abul A'la Al-Maududi, founder of the *Jamaat-i Islami* movement in Pakistan, argues that Islam uses the term of *khalifah* instead of authority because in Islam only God is the owner of authority (Maududi 1990). People who came to power and ruled by the God laws will become *khalifah* (caliphate) from the Supreme Authority that delegate His power to him. Maududi (1990) referred to the Holy Qur'an (24:55) that

"Allah has promised to those of you who believe and do good that He will most certainly make them *khalifah* in the earth as He made *khalifah* those before them, and that He will most certainly establish for them their religion which He has chosen for them, and that He will most certainly, after their fear, give them security in exchange; they shall serve Me, not associating aught with Me; and whoever is ungrateful after this, these it is who are the transgressors."

According to Maududi, in such society, there is no place for the dictatorship either by individual or political parties. Nobody has the prerogative rights either to be an absolute ruler or against the human rights toward the majority. While the ruling elite has been responsible to the God, s/he also has the responsibilities to the people

who have elected her/him. Thus, if s/he suddenly declares her/himself as an absolute ruler and has no responsibility, that means s/he performs her/himself as a dictator. In that case, actually s/he fails her/his role as *khalifah*, because dictatorship is the opposite of the *khalifah*.

Ayatollah Khomeini, founding father of the Islamic Republic of Iran and leading figure in Iran's Islamic Revolution, also advocated the view that Islam is against dictatorship. In one of his monumental works, *Hukumat-i Islami* (the Islamic Government), Khomeini (1983) said that an Islamic government is not a tyranny, in which the head of state can deal arbitrarily with the property and lives of the people, making use of them as he wills, putting to death anyone he wishes, and enriching anyone he wishes by granting landed estates and distributing the property and holdings of the people. Islamic government is neither tyrannical nor absolute, but constitutional. Even Khomeini has launched the term of the "Islamic democracy" (Ramazani 1990).¹¹

¹¹The term of 'Islamic democracy' is also used by many scholars. One of them is Professor Kosugi Yasushi, LLD, of the Study of the Islamic World in the Graduate School of Asian and African Area Studies, Kyoto University. According to him, Islam is basically compatible with democratic norms but rejected the liberalism values, although he disagrees to the Iranian political system that has been dominated by the Shiite clerics. Interviewed with Professor

According to John L. Esposito and James P. Piscatori (1991), however, in reality Islam also lends itself to various interpretations—it has been used to support democracy and dictatorship, republicanism and monarchy. The twentieth century has witnessed both tendencies. Some leaders of Islamic movements have spoken out against Western-style democracy. Their negative reaction, however, has often been part of the general rejection of European colonial influence, a defense of Islam against further dependence on the West rather than a wholesale rejection of democracy.

DEMOCRATIZATION IN MUSLIM WORLD

"Democracy requires a fairly large middle class, high levels of literacy and an expanding economy", said William B. Quandt (1994). Actually in Egypt, for example, about 40% of the populations still live under the poverty line. A similar situation also occurs in some other non-oil Arab countries. So, how about the democratic process in the Muslim world? According to Iliya

Harik (1994), in the Arab world, in 1970s only Lebanon has a democratic political system, but in 1994 there were seven Arab states—Egypt, Kuwait, Jordan, Yemen, Tunisia, Morocco, and Mauritania—that had moved to democratic states.

Lebanon still becomes an interesting case in the context of democratic process in the Muslim world. In August 1992, for the first time since 1972, the country held a general election for the members of parliament. Most of the militias, which involved in the 15 years civil war, have put their arms. Then, Lebanon enjoys the peaceful and political stability and has been continuously trying to reconstruct the social, economics, and political infrastructures that were destroyed by the 15 years civil war. Lebanon also becomes the only Arab country in which the "fundamentalist" Islamic party (that is the Hizbullah) was allowed to participate in the general election. In the election, Hizbullah gained 8 parliamentary seats. In the economic field, the role of the private sector was quite dominant in the country. The Lebanese government has also tried to develop privatization program in the telecommunication, the electricity, and the railway network across the country, in the same way as they did in their other infrastructures.

Besides Lebanon, the two countries—Morocco and Kuwait (after the 1991 Gulf War)—also seem to have already

Kosugi (Kyoto, 30 October 2003). Meanwhile, Dr. Ali A. Mazrui (CSID Chair Director, Institute of Global Cultural Studies, Binghamton University) used the term of "Islamocracy" as a synthesis between Islam and democracy. "Isla" is derived from the word 'Islam', whereas "ocracy" from the word 'democracy'. The letter "m" is shared by the words Islam and demos (Mazrui 2003).

made some progress in the political democratic process. In 1993, Morocco held a parliamentary general election that was considered the most fair since 1960s and spreading the privatization for some public companies. The first election held in 1970s resulting in the members of parliament that only become the "yes men" to the King. However, after the 1993 general election under the new constitution and election bill, the role of the parliament tends to increase. Eleven political parties and some independence candidates were taking part in the election. Also for the first time, the opposition political parties are reflecting pluralism, and two (of 33) women were elected as members of Morocco's parliament.

Indeed, the Morocco's King still has a prerogative right to appoint the prime minister, but now the PM has the right for selecting his cabinet ministers. Under the new bill, one-third of the members of parliament elected indirectly by the people from the business, professional and agriculture local institutions, associations and councils. So far only Egypt recognized such corporation representatives.

In Kuwait, for the first time, the King (Emir) agreed to appoint six ministers of cabinet who were selected from the members of parliament elected in 1992 election. The Kuwaiti political life is more democratic after the end of the Iraqi occupation in 1991. The press also relatively enjoys their freedom for

expression. Even some Kuwaiti scholars said that democratization in the country could prevent the probability of the next Iraqi invasion.¹²

Still in the Arab world, another interesting case is the political and economic liberalization experienced by Egypt. The political and economic reforms have begun yet under the Anwar Sadat regime, and it had improved under the Hosni Mubarak regime that implemented policy of liberalization and democratization gradually, followed by the economic reformation and privatization. Even though the democratic process in Egypt has some constrains, one of them is the fact that until now Mubarak has been implementing the 1981 martial law (after the Sadat assassinated). Besides, under the Mubarak regime the presidency election system in Egypt are more plebiscite than competitive, and the regime is still undertaking a policy that is repressive toward the "fundamentalist" Islamic groups. This had caused some human rights violence, which is in fact contradictory to the process of democratization itself.

The Palestinians, who have long been struggling to build an independent state, seem to have a greater chance in the democratic process. Further-

¹²See, for example, *The International Conference on the Effects of the Iraqi Aggression on the State of Kuwait: Research Summaries*, State of Kuwait (2-6 April 1994).

more, President Yasser Arafat of the Palestine Authority promised the political reform in the context of the Road Map peace initiative sponsored by the US government. Indeed, such as Quandt (1994) said, "Among Palestinians, interest in democracy is growing". According to him, there are many factors, such as the Palestinian bad experience under some Arab authoritarian regimes (Egypt under Gamal Nasser, Syria under Hafez Asad, Iraq under Saddam Hussein) on the one hand, and influenced by more democratic neighbors (Jordan and Israel) on the other.

In Jordan and Israel, for instance, many Palestinians saw the free press and general elections in both countries. In Jordan, the King remains the main power centre, but the political practice in the country is impressively democratic. Also in Israel, though violence against human rights toward Palestine civilians continues to occur, the domestic political life in Israel is quite democratic. Besides, there are many Palestinian diasporas live under liberal democratic political system in some Western countries, which automatically influenced their view on democracy.

CIVIL SOCIETY IN MUSLIM WORLD

In Dahl view, a modern democratic state is a state that is MDP (modern, dynamic, pluralist). However, the democratic system basically is a way to

achieve the freedom, the human development and the human values (Dahl 1989). The values of happiness, benefaction, and justice are united. Indeed, justice and freedom become the key words in democratic system. Dahl view is similar to Apter (1969) that one of the general preconditions for developing a democratic society is how to transform political power into justice. The latter as a solidarity base means justice for all people, and the best political procedures are simultaneously retrospectively to the definition of justice.

The democratic process, according to Dahl, more eminent because it tends to produce the best feasible system all around with respect to the idea of intrinsic equality; and it is instrumental to maximum feasible freedom, human development, and the protection of personal interests. The democratic idea also has three kinds of equality: the equality of moral intrinsic, the equality of personal autonomy, and the equality of political rights.

Although generally the increased role of civil society is considered as the main prerequisite to the democratic process, or that a democratic society is essential for democratic government, there is any rejected view to a thesis that civil society must be created as a prerequisite to democratize the Muslim world. This view is based on two reasons. First, the political liberalization or privatization in some Muslim

countries has just begun by the government initiatives. Second, most of the modern associations in some Muslim countries—such as business groups, trade unions, the professionals and the intellectuals—have no concern—but just a little bit if any—to the democratic process. In Egypt, for example, just the secular academics and journalists who in 1992 openly gave pressures to President Mubarak to reconsider the democratic process, because they were afraid of becoming “second” Algeria, in which the too rapidly democratic process had even given the chance to the “fundamentalist” Islamic movement to take the power.

In the oil rich Persian Gulf countries, the businessmen have enjoyed the facilities—such as license, credit or subcontract—from the government, and that they did not want “disorganize the situation.” On the other hand, trade unions have been playing more various roles. In Egypt, Algeria, and Syria, the trade unions become the partners of the ruling regimes that have always been successful in preventing the labor strikes. In Tunisia and Morocco, they have more concerns to the democratic process, though they never reject to cooperate with the government. Meanwhile in the oil rich Arab countries, trade unions and organizations no more than “a mannequin.”

According to Harik, the intellectuals as the third modern association, still

an enigma. Of course, since the 1980s the intellectuals become the pioneer in the human rights organization, but as the middle class they have less commitment for democratic process. Besides, the human rights organizations still have limited number of members and influences. In some cases, the intellectuals’ ambivalence is caused by the ideological factor on the one side, and by career consideration on the other. Some of them believe that socialism was fair, but democracy was not. They’re afraid that liberalization will just widen the social gap. Besides, the most Arab intellectuals are the government employees who consider the freedom of expression is a kind of “luxurious” thing.

Therefore, Harik seems right when he said, “during this century, Arab nationalism has shown itself to be less tolerant and has allowed less room for democracy, both in theory and in practice, than Islam.” Meanwhile, some Western countries, particularly the US, considered that the Middle East nations are not prepared or fundamentally incapable to institutionalized the democratic government. This view is based more on the prejudice or rationalization than the true observation (Farhang 1993). The other factor is the school of thought that is believed by the most Islamic “fundamentalist” groups in which the Islamic government was the main essential pillar for Islamic religion. They, as Harik wrote, “take as their political cornerstone the

belief that the main *raison d'être* of government is the implementation of divine law (*syariat*)".

However, democracy is not a system without criticisms. Those who criticized democracy generally just come from the democratic defenders themselves. According to Dahl, the collapse of the democracy is even caused by its supporters rather than its enemies. Dahl divided the people who criticized democracy into three groups. First, those who could create democracy, but it did not want to do it. Second, those who want democracy if created, but basically they cannot create. Third, those who sympathize democracy and want to defend it, but criticize it from some main points of views.

Regarding the "weakness" of the democracy, the question is: do the citizens, as the masses or the aggregate, have the capability to make the rational and effective decisions? Or, in the name of democracy and rationality that have become the enlightened ideals: will the citizens even become the victims of the politicians? And, if yes, is democracy a flawed doctrine?

Aside from the debate on the weakness and the eminence of the democratic system, John L. Esposito and John O. Voll (1996) wrote that the various concepts of democracy or the model of democracy that are officially

recognized by the Western world have influenced the democratic process in the Muslim world. And, automatically, the debate between the "official model" of Western democracy and its critics recently has also influenced Muslims' response toward the Western policy and the changes at the local level (Esposito and Voll 1996).

THREE SCHOOLS OF THOUGHT

On the relationships between Islam and democracy, Esposito and Piscatori (1991) argue that there exist three schools of thoughts.¹³ Muslim interpretations of democracy are based on the well-established Qur'anic concept of *shura* (consultation), but place varying emphases on the extent to which the people are able to exercise this duty. One school of thought argues that Islam is inherently democratic not only because of the principle of *shura*, but also because of the concepts of *ijtihad* or independent reasoning

¹³Previous studies of intellectual discourse on Islam and democracy reveal four broad categories of clerics, scholars and activists. The first category entails radical Islamists who emphasize the incompatibility between Islam and democracy. The second category entails Islamist democrats who emphasize the compatibility between Islam and democracy. The third category represents secular authoritarians who advance arguments to defend the non-democratic *status quo*. Liberal democrats represent the fourth category. They propose secular grounds for democratic transition (Fattah 2002).

and *ijma'* or consensus (al-Maududi 1990).¹⁴

According to Enayat, the decision-making in the Islamic government must

¹⁴*Ijtihad*, loosely translated as "interpretation", or more correctly, "working with the sources of dogma". *Ijtihad* also means exerting the sum total of one's ability attempting to uncover Allah's rulings on issues from their sources (*Qur'an*, *Sunnah*, *Ijma'*, etc.). Sometimes divided into complete *ijtihad* (the ability of one to independently arrive at Allah's rulings in all areas of *fiqh*) and partial *ijtihad* (the ability of one to do so only in certain areas of *fiqh* in which they have exerted such efforts). In Islamic law, the analysis of problems is not covered precisely in the *Qur'an*, the *Hadith*, or the scholarly consensus called the *ijma'*. In the early Muslim scholarly community, every jurist had the right to exercise such original thinking, but the growth of legal schools prompted Sunni Muslim authorities to declare that the principal legal issues had been settled by the 10th century. Shi'ite Muslims have always recognized *ijtihad*, and jurists considered learned enough for this kind of analysis have great authority. In the 20th century an attempt was made to restore *ijtihad* among Sunnis to help Islam adapt to the modern world. The forbidden kind of *ijtihad* in Shiite opinion is the one that means "legislating" or "enacting the law", by which we mean that the *mujtahid* passes a judgment which is not in the Book (the *Qur'an*) or the *Sunna*, according to his own thought and his own opinion. This is technically called *ijtihad al-ra'y*. According to Shi'i Islam, this kind of *ijtihad* is forbidden, but in Sunni Islam it is permitted. In the latter the sources of legislation, and the valid proofs for determining the *shar'ia*, are given as the Book, the *Sunna* and *ijtihad*. The Sunnis place *ijtihad*, which is the *ijtihad al-ra'y* explained above, on the same level as the Book and the *Sunna*. See also, "*Ijtihad*" in *Britannica Concise Encyclopedia*. Retrieved November 6, 2003, from Encyclopedia Britannica Premium Service. <<http://www.britannica.com/ebc/article?eu=393107>>

be based on the law and the people will. These preconditions, according to him, are contained in the *Qur'an* and *Hadiths*. As Apter said, the public support for the government policy is the basic needs in political democracy. Muhammad Asad, an influential Muslim thinker often identified as a modernist, puts the matter more forcefully: "The legislative assembly—*majlis ash-shura*—must be truly representative of the entire community, both men and women. Such a representative character can be achieved only through free and general elections; therefore, the members of the *majlis* must be elected by means of the widest possible suffrage, including both men and women". Even Sayyid Jamaluddin al-Afghani and Muhammad 'Abduh, two leading Islamic thinkers, say that Islam is a "free will" religion ('Abdah 1982; Enayat 1982).

The Islamic revivalism movement in Indonesia, such as *Muhammadiyah*, (literally means "the followers of the Prophet Muhammad PBUH") was for long influenced by the same movement led by Al-Afghani and Abduh in Egypt. Therefore, PAN (*Partai Amanat Nasional* or the National Mandate Party) led by Amien Rais (former Chairman of *Muhammadiyah*) fully supported the democratic process in Indonesia. The other Islamic political party, PKB (*Partai Kebangkitan Bangsa* or the Nation Renaissance Party) led by former President Abdurrahman Wahid, has

been against the ideals of "Indonesian Islamic state" and the establishment of *Shariat Islam* (Islamic Law) in Indonesia. The Muslim intellectual, such as Dr. Nurcholish Madjid, has also been very concerned about the democratic process in Indonesia.¹⁵

In contrast to the first argument is the second school of thought, which rejects the idea that Islam and democracy, as commonly understood, are or can be compatible. This view emerged in the Constitutional Movement of 1905-1911 in Iran. Sheikh Fadlallah Nuri, during debates over the formulation of the constitution, argued that one key democratic idea, the equality of all citizens, is "impossible" in Islam.

Sayyid Qutb, a leading theoretician of the *Ikhwanul Muslimin* (Muslim Brotherhood) who was executed by the Egyptian regime in 1966, strongly objected to any notion of popular sovereignty (Qutb, 1982; Haddad, 1983). Although he stressed that the Islamic state must be based on the Qur'anic principle of the *syura*, he believed that *syariat* is so complete as a legal and moral system that no further legislation is possible.

Qutb, remembered as the *syahid* (martyr) of the Islamic revival, has had

a major impact on Muslim thinking and movements throughout the Muslim world. Within Egypt itself, echoes of his position can be found within the *Tafkir wa al-Hijrah*, one of the most important "radical" groups in the 1970s.

In 1982, Shaykh Muhammad Mutawali al-Sha'rawi, a popular religious leader, created controversy by saying that Islam and democracy were incompatible and that *shura* did not mean simple domination of the majority.

In Algeria, one of the younger leaders of FIS and a popular preacher, Ali Benhadj (who has been kept in prison since June 1991), echoes the refrain that "democracy is a Judaeo-Christian concept and should be replaced by inherently Islamic principles of governance". According to him, Western political theorists themselves are beginning to see that democracy is a flawed system (Esposito & Piscatori 1991). It seems parallel to the view of Huntington (1993) that Islamic concepts of politics "differ from and contradict the premises of democratic politics".

According to Enayat, all the efforts to synthesize Islam with democracy are always afoul to the coral that is the compilation of the everlasting doctrines and unchangeable, which becomes the core of every religion. One of the most famous Iranian philosophers, Sayyid Muhammad Hussein Thabathaba'i, considered that Islam and democracy are impossible to be

¹⁵Meanwhile in Southern Philippine, basically the MILF (Moro Islamic Liberation Front) is also supporting the democratic process. Interviewed with Dr. Patricio N. Abinales (Kyoto, 28 October 2003).

a complementary. He warned that every monotheist religions in their early birth are always contradicted—not adapted—to the majority will.

Thabathaba'i quoted the Qur'an (23: 70-71), that

"If the Truth had been in accord with their desires, truly the heavens and the earth, and all beings therein would have been in confusion and corruption! No, We have sent them their admonition, but they turn away from their admonition."

Therefore, he said, it is wrong to consider that the demands of the majority are always just and bound. In Enayat view, because of Thabathaba'i facing the problems of freedom of expression in Islam directly and openly, so his stand far more fairly and bravely compared to the other theoreticians, which artificially trying to integrate democracy and Islam.

The view that Islam contradicts democracy is also emphasized by King Fahd bin Abdul Aziz of Saudi Arabia Kingdom, who openly said that democracy is only compatible to the Western society, but incompatible to the Muslim nations. Fahd has even expressed "bastardization" for the free general elections, although in 1992 he agreed to form the consultative assembly. "The prevailing democratic system in the world is not suitable for us in this region ... We have our own

Muslim faith which is a complete system and a complete religion. Elections do not fall within the sphere of the Muslim religion," said Fahd as quoted by Lisa Anderson (1997).

The Islamic "fundamentalist" groups in Indonesia—such as, MMI (*Majelis Mujahidin Indonesia* or the Assembly of Indonesian Muslim Fighters), FPI (*Front Pembela Islam* or the Front of Muslim Defenders), KPPSI (*Komite Persiapan Penegakan Syariat Islam* or the Preparation Committee for Islamic Law Enforcement), FPIS (*Front Pemuda Islam Solo* or the Solo Muslim Youth Front), *Laskar Jihad* (the Jihad Army), GPI (*Gerakan Pemuda Islam* or Muslim Youth Movement), *Hizbut Tahrir* (the Freedom Party), etc.-are strongly influenced by the *Ikhwanul Muslimin* (Muslim Brotherhood) of Egypt and Jordan. The works of IM leaders, such as Hassan al-Banna or Sayyid Qutb or Said Hawwa became the "best sellers" for the followers of the groups. "Our mission is to support Islamic movements on a global scale," said a leader of GPI.

"Since Indonesia is predominantly a Muslim country, an establishment of *Syariat Islam* will be just and the Muslims will feel more comfortable. The rights of the Christians will be absolutely respected." According to one of the MMI leading figures, "democracy has even been disadvantageous for the Indonesian Muslim community, because it divided the

Muslim political leaders and parties"¹⁶ In other words, democratization is still seen by some "fundamentalist" Muslim leaders as a non-necessary condition to achieve both priorities: protecting and unifying the Islamic community.

The third school of thought, advanced by Maududi, contains both of the preceding perspectives and yet differs subtly from them. Like the first school of thought, its line of argument holds that Islam constitutes its own form of democracy. However, like the second, it concentrates on the relationship between divine and popular sovereignty. Arguing that democracy as commonly understood is based solely on the sovereignty of the people, Maududi concludes that Islam is "the very antithesis of secular Western democracy" (Esposito & Piscatori 1991).

According to Maududi, who is considered by Esposito and Piscatori as the "pioneer" of the third school of thought, in Western secular democracy the government was formed and changed by the general elections. Democracy in Islam also has the similar idea. However, while the power of the ruling governments in Western system enjoys the absolute authority, in Islamic democracy the Divine Law has even limited them.

Two of the followers of the third school of thought are the Islamic Re-

public of Iran and the Tunisian *Hizb al-Nahda*, formerly known as MTI (*Mouvement de Tendance Islamique*). In the case of Indonesia, the Indonesian Muslim political parties, such as PK (*Partai Keadilan* or the Justice Party), PPP (*Partai Persatuan Pembangunan* or the Development Union Party), and PBB (*Partai Bulan Bintang* or the Star and Crescent Party), are the main followers of the third school of thought. On the one hand, they have been supporting democratic process, but on the other hand they have also been advocating the establishment of the Islamic law.

The Constitution of the Islamic Republic of Iran, which might have been expected simply to reaffirm the absolute sovereignty of God, makes reference to both divine and popular sovereignty. Indeed, it can be argued that the latter has greater emphasis.¹⁷ Therefore, the Iranian elections, either to elect the president or parliamentary

¹⁷See, for examples, *The Constitution of the Islamic Republic of Iran* (Tehran: Islamic Propagation Organization, 1990), Articles 1, 2, 3, 59, and 62. The constitution, for example, stated "The form of government of Iran is that of an Islamic Republic, endorsed by the people of Iran on the basis of their longstanding belief in the sovereignty of truth and Qur'anic justice,..." (Article 1); "The Islamic Republic is a system based on belief in: [1] the One God (as stated in the phrase 'There is no god except Allah'), His exclusive sovereignty and the right to legislate,..." (Article 2); "In extremely important economic, political, social, and cultural matters, the functions of the legis-

¹⁶Interviewed with a leading figure of MMI in Yogyakarta (June 2003).

members, are always interesting to the world media, such as the 1997 and 2001 general elections, which won by a reformist cleric, Mohammad Khatami. Even in 1997 election Khatami became a phenomenon after having successfully outvoted Ali Akbar Nateq-Nouri, the strongest candidate from the conservative clerics bloc and supported by the supreme and spiritual leader Ayatullah Ali Khamenei.

In Tunisia, *Hizb al-Nahda* (the Renaissance Party), which achieved good results in the 1989 general elections, accepts the democratic process and has sought to become a legalized political party. This commitment to pluralist politics reflects the thinking of its leaders, Rashid Ghannouchi and Abdelfattah Mourou. For Ghannouchi, democracy, popular sovereignty, the role of the state, multiparty elections, and constitutional law are all part of a "new Islamic thinking" whose roots and legitimacy are found in a fresh interpretation or reinterpretation of Islamic sources. Mourou has argued, "laws come from God, but sovereignty is that of the people".

Historically, according to Enayat, the ideals of democracy in the form

lature may be exercised through direct recourse to popular vote through a referendum..." (Article 59); and, "The Islamic Consultative Assembly is constituted by the representatives of the people elected directly and by secret ballot..." (Article 62).

of the freedom of speech and expression, and the representative government, have in-depth impression for the Muslims as consequences of the independence goals and national unity. In his view, for the Muslim thinkers the problems caused by democratic process are more complex than those caused by nationalism. Should Islam clash with certain postulates of democracy, the general characters of Islam as a religion may have caused it. Every religion is facing the same problem, that is a belief system based on some absolute and unchangeable schools, or at the power of conventions or the legitimate traditional authorities.

Enayat believed that no government system—whatever their ideological basis or socio-economic configurations—is considered democratic as we know at the present day, without any bases on some principles implied in the people's attitude and social values, or those explicitly exist in the law. The most important things, he said, are among others: the recognition to every people's dignity; the recognition to the law that is the compilation of the exact norms or rational to manage all social relations; the equality to every citizen before the law; the legalization and the legitimating of state policies; and, the high level of tolerant toward the unconventional and unorthodox views.

Indeed, there are many differences between the concepts of Islam and

Western classic on equality, which are reflected in the political terminology of both cultures. Qur'an recognized a man (*insan*) whatever his belief and political stand, but the Book has not have the similar term of citizen. Therefore, Enayat said, Muslims people in the modern time forced to creating some new terms for the concept of citizen such as *muwathin* in Arabic, *syahr-vand* in Persian, and *vatandas* in Turkish languages. According to him, recently the democratic government system everywhere still does the discrimination, both implicitly or explicitly, which gives some benefits to some people who are loyal to the ideals, norms and symbols that have formed the American way of life or the scientific socialism or liberal monarchy democratic.

CONCLUSION

As long as there still exist disagreements among the Islamic leaders and thinkers on the relations between Islam and democracy, it will be difficult for democratic process to happen in the Muslim world. Indeed, such disagreement itself basically reflects the existence of the democratic values. While the West criticizes Islamic government for not being democratic, it also supports governments that are not democratic and are preventing Islamic movements from developing their ideas (Ghannouchi 1993). "Why does the West speak about democracy and

human rights when it supports regimes that persecute and imprison activists? Yet, Western governments support such regimes. There is a contradiction between what the West wants or applies in the West and what it wants and supports in other countries", says Abdelfattah Mourou (Esposito & Piscatori 1991). Actually, for some peoples, "Islamic movements represent an authentic alternative to corrupt, exhausted, and ineffectual regimes" (Esposito 1997).

There are at least two constraints for developing democratic political system in the Muslim world. First, in the Muslim society itself there remain disagreements on the compatibility between Islam and democracy. Second, to some extent the democratic process in the Muslim world depends on the external factor. It means that the success or the failure of the democratic process in the Muslim world would depend on the extra regional actors' attitude, particularly the Western countries itself—whether they encourage or discourage the democratization in the Muslim world. The cases of Algeria (1992) and Turkey (1997) have proven that the failure of democratic process is due to the Western supports, albeit tacitly, toward the halting of democratic process, because of the Western and secular leaders' phobia to the rise of Islamic "fundamentalism". In fact, the phobia itself is based on a negative prejudice—an attitude that is basically undemocratic too.

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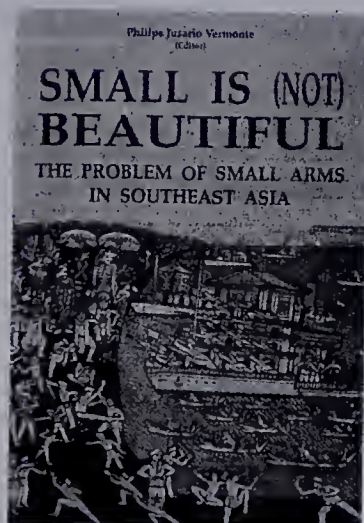
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SMALL IS (NOT) BEAUTIFUL THE PROBLEM OF SMALL ARMS IN SOUTHEAST ASIA



Edited by: Philips Jusario Vermonte

Published by: Centre for Strategic and International Studies (CSIS), Jakarta.

This problem of small arms is complex. It carries not only international, but also regional, national and even local dimensions. An accurate understanding of this issue is therefore imperative.

This book attempts to investigate the problem of small arms proliferation in Southeast Asia with special reference to Indonesia, the Philippines, and Thailand. It contains six papers that result from a collaborative research project undertaken by researchers from CSIS in Jakarta, from Chulalongkorn University in Bangkok, and from Institute for Strategic and Development Studies (ISDS) in Manila.

The publication of this book is intended to provide a more comprehensive understanding on the issue of small arms in particular and human security in general.

Contributors: Rizal Sukma, Edy Prasetyono, Landry Haryo Subianto, Thitinan Pongsudhirak, Herman Joseph S. Kraft, Philips J. Vermonte.

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Terrorism, Democracy and Security Sector Reform in Indonesia

Anak Agung Banyu Perwita

"... every time we stand up for human rights and fundamental freedoms, we stand up against terrorism. Every time we act to resolve political disputes, we act against terrorism. Every time we make the rule of law stronger, we make terrorists weaker." (Koffi Annan)¹

INTRODUCTION

THE tragedy of September 11 in the United States and other terrorist attacks in many regions of the world, including in Indonesia have increased the significance of security sector reform in general and in Indonesia in particular. This is mainly due to the fact that terrorist acts were attacks on freedom and civilization—as part of a widening and deepening of the con-

cept of security—in the whole world. The globalization of terror and the fear of it have forced nation-states to reconceptualize and to strengthen its (national) security.²

In line with a growing body of literature on national security studies and democratic peace³, the efforts of any democratic country to provide security to its people was guided by the conviction that the quality of security provided by the state depends on the ability of states to organize its security apparatus along democratic lines in a security sector reform initiative. On the other hand, civil society actors also play an important role in

¹Quoted from <http://www.un.org/apps/news/infocusRel1.asp?infocusID=8&Body=terror&Body1=>, accessed 10 March 2005.

²See Sean Kay, "Globalization, Power and Security," In *Security Dialogue* 35, no. 1 (2004): 9-26.

³See for example, Tarak Barkawi, Mark Laffey, "The Imperial Peace: Democracy, Force and Globalization," In *European Journal of International Relations* 5, no. 4 (1999): 403-434.

helping to manage and oversight the security sector.

More specifically, security sector reform (SSR) is primarily concerned with the establishment of appropriate structures for (democratic) civilian control. The other key elements of SSR, as Timothy Edmunds argued, are the process of the civilianisation of security sector bureaucracies and the de-politicisation of the security sector⁴. The arguments above clearly implies that the role of the civilians as part of "wider-security family"⁵ is quite crucial in the development of democratic security forces and the process of SSR.

This article attempts to link the issue of terrorism as a threat to security and the importance of SSR in Indonesia. It is divided into several sections. The first section describes the need to promote democratization in combating terrorism. The next part of the article delineates the impact of terrorism on security sector reform as part of democratization. Lastly, it discusses what lessons Indonesia's civilians and military can learn from it.

⁴See Edmunds, Timothy (2001). *Security Sector Reform: Concepts and Implementation*. Report for Geneva Centre for Democratic Control of Armed Forces. p. 6.

⁵See Ann Fitz-Gerald, "Security Sector Reform-Streamlining National Military Forces to Respond to the Wider Security Needs," In *Journal of Security Sector Management* 1, no. 1 (March, 2003).

WILL DEMOCRACY DISCOURAGE TERRORISM⁶?

It is, of course, not an easy task to answer the above question satisfactorily. Although cynics may grow, democratization, to a large extent, has gained momentum as a counterterrorism strategy in the post September 11 attacks. The logics behind this strategy is that the democratic procedures and institutions can help to address the underlying reasons for terrorism.

The root causes of terrorism as a transnational threat⁷ are multifaceted and complex, and any single respond, namely military respond, will only create new problems. Terrorism attacks the values of respect for human rights, the rule of law, tolerance among peoples and the peaceful

⁶There are a lot of definitions of terrorism. This paper uses the term 'terrorism' as defined by David J Whittaker, *The Terrorism Reader* (London: Routledge, 2001), 5. According to Whittaker, the term 'terrorism' should at least contain five different elements that relate to each other: (1) terrorism "is eluctably political in aims and objectives", (2) "violence act or threatens violence", (3) "designed to have far reaching psychological repercussions beyond immediate victim or target", (4) "conducted by an organization with an identifiable chain of command or conspiratorial cell structure", (5) "perpetrated by a sub-national group or non-state entity".

⁷Transnational threat can be defined as "... threats that do not respect national borders and which often arise from non-state actors, such terrorists and criminal organizations ...". See *A National Security Strategy for A New Century* (Washington: The White House, 1999), 2.

resolution of conflict. In doing so, terrorism can endanger freedom and justice which then become a serious threat to democracy. Thus, a comprehensive and dynamic policy response rather than a coercive measure is more than necessary. This comprehensive policy should incorporate all the activities that could demolish both symptoms and causes of terrorism, as Koffi Annan, UN Secretary General, argued that:

"We should all be clear that there is no trade-off between effective action against terrorism and the protection of human rights. On the contrary, I believe that in the long term we shall find that human rights, along with democracy and social justice, are one of the best prophylactics against terrorism".⁸

The lack of democracy has played a role, however, in producing the conditions conducive to the emergence of terrorist movements. Karin Von Hippel, a senior research fellow at the Centre for Defence Studies at King's College London, even argued that the real breeding grounds for terrorism are strong authoritarian states that lack democracy and accountability.⁹

While former Secretary of State, Colin Powell has noted that "A shortage of economic opportunities is a ticket to despair. Combined with rigid political systems, it is a dangerous brew indeed".¹⁰

Nation-states with authoritarian political systems, including military regimes, weak civil societies, unindpendent media and economic difficulties would create an environment in which terrorist groups can thrive. As Ray Takesh and Nikolas Gvosdev argued the weak and failed states have a number of attractions for terrorist organizations to grow.¹¹ This is mainly due to the fact that: (1) failed states will provide the opportunity to acquite territory; (2) failed states have weak or non-existent law-enforcement capabilities; (3) they also create pools of recruits and supporters for terrorist groups; and, (4) they also retain the outward signs of sovereignty.¹² In the case of Indonesia, for example, the failure to respond to political reform and law enforcement was believed to lead to the emergence of new militant youngster and terrorists of the Radical Islamic movements. Consequently, the establishment of a more

⁸Quoted from http://www.un.org/Docs/sc/committees/1373/human_rights.html, accessed 10 March 2005.

⁹Karil Von Hippel, *The Roots of Religious Extremist Terrorism*. In <http://www.kcl.ac.uk/depsta/wsg/sept11/papers/root5.html>, accessed 19 March 2003.

¹⁰Colin Powell, speech before the Heritage Foundation, Washington DC, 12 December 2002.

¹¹Ray Takesh, Nicholas Gvosdev, "Do Terrorist Networks Need a Home?," In *The Washington Quarterly* 25, no. 3 (2002): 97-108.

¹²*Ibid.*

democratic political system and the enhancement of law-enforcement capability can be used as a 'soft tool' to mitigate the spread of terrorist movements.

Furthermore, the policies of the establishment and the empowerment of democratic political systems in the long-term involve different aspects, such as:¹³

- *Avenues for peaceful change of government.* By having regular, free, and fair elections, the public can bring about the change of leaders/governments peacefully.
- *Channels for dissent and political discussion.* A democratic regimes can have better governance structure that can initiate the public debate on particular issues/policies.
- *Rule of law.* The principle of public accountability will be held by the public and government.
- *Civil Society.* In democracies, civil society will play a significant role in controlling the political power of the executives.
- *Free flow information.* Democracy also guarantees the free flow of information. The public, then, will have access to competing sources of information.

- *Strong states.* Democracies tend to be better governed by the chosen person of their own people.
- *Sustainable economic and social development.* This aspect relates to the Human Development Report, produced by the UNDP, that democracy is essential to human development.
- *Needed values and ideals.* Democracy is based on certain ideals such as tolerance, compromise, respect for individual rights, equality of opportunities, and equal status under law. These values can be utilized to mitigate the fundamental roots of terrorism.

Nevertheless, promoting democratization in a country with limited tradition of democracy has certain political and security risks. However, series of terrorist attacks in the last four years have served as a catalyst for a new era of democracy promotion all over the world. The significant trend on the linkage between democracy and terrorism is that many states which are in the transitional process are vulnerable to the terrorism activities. The continuing weakness of states will become a major liability in the fight against terrorism. On the other hand, democratic political culture and system will foster the civil liberties, rule of law, civil society and civilian control of the military, all of which are necessary to democracy in dealing with ter-

¹³See Jennifer Windsor, "Promoting Democratization Can Combat Terrorism," In *The Washington Quarterly* 26, no. 3 (2003): 43-58.

rorism.¹⁴ As Rob de Wijk stated the fight against terrorism is actually the battle to win the hearts and minds of the whole societies.¹⁵

The significance of promoting democratization as an approach to the problem of international terrorism is recognized in the US National Strategy for Combating Terrorism which argued that the fight against international terrorism is a long-term efforts to tackle broader economic, political and societal problems, such as: poverty, social disorder, lack of democracy, and poor governance.¹⁶ It is also emphasized by the National Intelligence Council (NIC). In its report "Mapping the Global Future 2020", NIC argued that the world should endorse further development of more open political system as one of counter-terrorism approaches, particularly in the fragile democratic countries.¹⁷ It is mainly due to the fact that terrorism poses unique challenges to (liberal) democratic states.

¹⁴See Cindy R. Jebb (2004). *Liberal Democracy versus Terrorism: The Fight for Legitimacy*. In <http://www.isanet.org/archive/jebb/html>, accessed 14 February 2005.

¹⁵See Rob de Wijk, "The Limits of Military Power," In *The Washington Quarterly* 25, no. 1 (2001): 75-92.

¹⁶See Chantal de Jonge Oudraat, "Combating Terrorism," In *The Washington Quarterly* 26, no. 4 (2003): 163-176.

¹⁷See National Intelligence Council, "Mapping the Global Future: Report of the National Intelligence's Council 2020 Project," Washington (2005), 93-100.

Multilaterally, the UN as an international organization can also contribute critical efforts to the campaign against terrorism.¹⁸ First, the UN can enhance the legitimacy of state actions, including military actions. Second, it can also help to establish international norms and standards of accountability in paralel with the human rights. Third, the UN can share the economic burden of the war on terrorism and lastly, it can also give some assistance to share the political burden.

Since the early 1990s, the UN Security Council (UNSC), for instance, has attempted to weaken State support for and strengthen State resistance to terrorism. The UN has, at least, released 12 (twelve) international conventions against terrorism and 8 (eight) Special Recommendations on Terrorist Financing but many states are remain outside those normative foundations and not all countries ratifying the conventions and adopted those recommendations.¹⁹ As a result, the capacity of the UNSC to assist states to fight against terrorism is limited to normative and technical supports.

¹⁸See de Jonge Oudraat, *Ibid*.

¹⁹For further discussion on this issue, see "A More Secure World: Our Shared Responsibility," Report of the Secretary's-General High-Level Panel on Threats, Challenges and Change (New York: the UN, 2004), 47-51.

THE IMPORTANCE OF SECURITY SECTOR REFORM

The Security Sector Reform (SSR), which was introduced in the 1990s, was relatively new concept to deal with the problems and challenges of new security environment. In today's international relations, threats to security are not only military in nature, but it also includes non-military threats such as transnational organized crimes and terrorism. These new threats, of course, require that all state's security actors operate in a concerted manner. Furthermore, the changing security environment also led to two important changes in the concept of security, namely: (1) from an exclusive focus on territorial security to a greater emphasis on human security, and (2) from security through armaments to security through sustainable human development.²⁰

As a result, a national security strategy should include all strands of the wider security sector and clearly articulate objectives and priorities of a more comprehensive national security interests.²¹ In this context, the US-led

'war on terrorism' is particularly illustrative of the changing nature and response of military security as well as the increasing 'securitization' of non-military issues.

From a security perspective, the security sector reflects the broader notion of security. This is due to the fact that SSR does not only cover the military but it also acknowledges the significance role of the non-military actors in the provision of public security—internal and external. The main concern of the SSR, then, is the establishment of new institutions and delineating the powers of the security sector actor. It includes all "state institutions and agencies that have the legitimate authority to use force, to order force or to threaten the use of force in order to protect the state and its citizens".²² The main objective of SSR is "to create systemic accountability and transparency on the premise of increased, substantive and systemic democratic control".²³ From this objective, we can have an understanding that SSR uses a holistic approach by recognizing the significance of militarized formation other than the regular armed forces in civil-

²⁰Dylan Hendrickson, "A Review of Security Sector Reform," Working Papers (London: Centre for Defence Studies, University of London, 1999), 17-18.

²¹Ann M. Fitz Gerald, "Security Sector Reform: Streamlining National Military Force to Respond to the Wider Security Needs," In *Journal of Security Sector Management* 1, no. 1 (2003): 1-21.

²²See Hans Born, Philipp Fluri, "Oversight and Guidance: The Relevance of Democratic Oversight for Security Sector Reform," Paper delivered at the International Civil Society Forum, Mongolia, 8-9 September 2003, 1-8.

²³*Ibid.*

military reform efforts and recognizing that the role of security and security sector actors in economic and political reform are important and complex.²⁴ While for many developing countries, SSR constitutes a major challenge to political transitions within the context of a democratization process. On the other hand, SSR can also be categorized as part of military reform of the process of democratization (a democratic transition from the era of bureaucratic authoritarian regime).²⁵

SSR is about making the institutions that are responsible for protecting society more accountable to individual citizens and communities and more responsive to their security needs, while ensuring that they become more efficient and effective in providing security. It relies on making information about the security sector actor, policies, and practices widely available to the public. In this sense, it deals with the systematic efforts to achieve the good and democratic governance. As Professor Robin Luckham of Sussex University, describes SSR as:

... the quintessential governance issue. This is so both in the sense

that there is enormous potential for the misallocation of resources and also because security sector out of control can have an enormous impact on governance—indeed, be a source of malgovernance.²⁶

In this context, democratic governance is the core of SSR activities. However, improving the the democratic governance of the security sector is a societal challenge that requires reformers (military, parliaments and civilians) to take into account the specific cultural, political and institutional conditions of a nation-state. Thus, from a governance perspective, the security sector should be subject to the principles of good governance such as accountability, transparency, and democratic participation. A document published in 2000 by the UK Department for International Development has attempted to defines some basic principles in the SSR, which can be summarized as follows.²⁷

First, the security sector actors are accountable to and their operations are overseen by elected civil authorities

²⁴See Timothy Edmunds, "Security Sector Reform: Concepts and Implementation," Report for Geneva Centre for Democratic Control of Armed Forces, 2001. 1-14.

²⁵For further discussion on this issue, see for example David J. Galbreath, "Democratisation and Inter-State War: Why Reform does not Encourage Conflict," In *Politics* 24, no. 3 (2004): 206-214.

²⁶Quoted from Ann M. Fitz Gerald, "Security Sector Reform: Streamlining National Military Force to Respond to the Wider Security Needs," In *Journal of Security Sector Management* 1, no. 1 (2003): 4.

²⁷UK Department for International Development, *Security Sector Reform and the Management of Military Expenditures* (London: UK Department for International Development, 2000).

and various civil society organizations. Second, the security sector actors should be operated in accordance with international and domestic law. Third, the availability of any information about the planning, budgeting and operations of the security sector's actors should be easily accessed by the wider public and a comprehensive and disciplined approach to the management of all resources is adopted. Fourth, the legislative (parliament) and executive branches of civil authorities have the capacity to exercise political control over the policies, budgets, and operations of the security sector actors. In line with this, the civil society should also have the capacity to oversee, monitor and constructively participate in the political debates concerning those policies, budgets and operations. Fifth, the civil-military relations are based on a well-articulated hierarchy and the respect for human rights. And lastly, individuals are guaranteed due legal process and equal treatment in a fair and transparent manner.

Consequently, the SSR is a long-term developmental programme which requires the transformation of state-structures, operating procedures, legal provisions, and even cultural traditions. It is an integrated component of the state's overall governance system and structure. It cannot be measured in a short time, but it will take years. However, SSR should be in-

itiated in new democracies. Otherwise, the state will not become the source for providing security for its citizens and communities, particularly when it has to deal with the new threats to security, but is part of the security problem.

LESSONS TO BE LEARNT

The process of security sector reform in Indonesia initially started after the fall of President Soeharto in May 1998. The problem of SSR becomes even more complex when one has to consider the domestic economic and political context in Indonesia since the end of 1997. The other crucial factor that needs to be taken into account is the international environment when the world faced serious threat of terrorism in the post-9/11 attack. To put it another way, for the reform of security sector to be successful it should take into account the rapidly changing domestic and international security context in any particular country.

However, the global war on terrorism, to a large extent, has also propelled the rigorous debate on security sector reform, particularly on the civil freedom and liberties worldwide. The strong emphasis on military operation to curb terrorism has caused great concern among Indonesian pro-democracy scholars, activists and NGOs that the military will continue to act with

impunity.²⁸ This concern comes from a question whether the US campaign on war against terrorism is even going to become a war against democracy.

Even though national security is the concern of the whole public, the national security policy paper as reflected on the Indonesia's defence white paper still reflects the domination of military views and interests on defence issues, particularly on the fight against terrorism.²⁹ The paper stated that:

"Threats from terrorism need urgent actions and the TNI is directly concerned to have a role and function in fighting terrorism in accordance with the spectrum of threats".³⁰

As the *Jakarta Post* argued in its editorial, this comes as no surprise considering that although the Department of Defence may be led by a civilian, those running the show, including those who drafted the white paper, come from the TNI.³¹

Many civilians argued that this is still a weakness in Indonesia, parti-

cularly the lack of knowledge of military strategy and defence management of the civilians in the national security policy-making process. The other weaknesses of the civilians in this process were strategic and policy constraints³² which had limited the substantial role of the civil society in policy making and controlling the policy. Despite of these constraints, the first thing that Indonesian civilians should have is more awareness of the defence knowledge and needs in order to be more involved in the debate on security related issues. As has been argued by Timothy Edmunds that the effective and wide engagement of civil society in security sector issues is quite crucial due to the societal legitimation to the security sector in a democratic context.³³

While Laurie Nathan argued the obstacles to security sector reform in emerging democracies are many and varied.³⁴ He mentioned that there are at least 5 major obstacles in the implementation of SSR, such as *the problem of complexity* which deals with a large

²⁸Riefqi Muna, "Security Reform," In *Inside Indonesia*, January-March 2004.

²⁹The official title of the policy paper is "Defending the Country Entering the 21st Century," published by Indonesia's Department of Defence, 2003.

³⁰*Ibid.*, 51.

³¹See *The Jakarta Post*, 15 April 2003.

³²For further discussion on these issues, see Rizal Sukma and Edi Prasetyono, "Security Sector Reform in Indonesia: The Military and Police," Working Paper no. 9 (Netherlands Institute of International Relations "Clingendael", 2003).

³³Edmunds, "Security Sector Reform ...", 8.

³⁴See Laurie Nathan, "Obstacles to Security Sector Reform in New Democracies," In *Journal of Security Sector Management* 2, no. 3 (2004): 1-7.

number of agendas and policies that may have to be transformed simultaneously; *the problem of expertise* that relates to the lack of expertise of political decision makers and member of parliaments on the issues pertinent to security and defence; *the problem of capacity* that relates to the limited capacity of a competent and fair judiciary, police service and criminal justice system; *the problem of resistance to change* that refers to the political reluctant of the military and political decision makers to the political transformation due to both ideological and political reasons; *the problem of insecurity* that relates to the unstable conditions (exclusion of minorities from governance, socio-economic deprivation combined with unequal distribution of wealth and power, and weak states that are unable to manage societal conflict) that many countries have experienced which produced authoritarianism and militarization. The above conditions then gave to a security vacuum that the state, civil society groups and individuals seek to fill through the use of violence.

Furthermore, the white paper also still contains some controversial issues.³⁵ The first most controversial issues is the need for TNI to play a

leading role in maintaining domestic security along with the national police (Polri). This issue reflects that the government attempted to mix and even blur the distinction between defence and security. In fact, terrorism cannot be fought by using military forces only.

The paper also, for example, stated that while Indonesia does not have any immediate military external threats, it does have non conventional threats ranging from terrorism, drug trafficking, separatist movement, illegal fishing, illicit human trafficking and so on which could ultimately jeopardize the national security. The government will use any necessary policies and instruments to reduce any potential threats to Indonesia. Yet, any measures to be taken to mitigate any potential threats should not violate the basic human rights and democratic values.

The other controversial points of the paper is the TNI's need to maintain its presence among the people through its huge network of territorial commands. Yet we know that from the previous experience, particularly during the New Order regime, the presence of the territorial structure all the way down to the village level has created the impression of a heavily militarized nation. The other experience of the military commands was that through these territorial system, TNI has continued to exercise its political

³⁵Anak Agung Banyu Perwita, "Security Sector Reform: The Case of Indonesia," In *Journal of Security Sector Management* 2, no. 4 (2004): 1-9.

influence, even though the concept of *Dwifungsi* (dual function)³⁶ is legally no longer in politics. Eventhough, the dual function has been replaced by the new paradigm in which removed the TNI from its direct role in political affairs—given up its political seats in the parliament—and shifted the TNI's focus toward external defence and the preservation of national unity in 1998, the internal reforms have neither significantly diminished the political influence of the territorial chains nor erased the involvement of the TNI in domestic affairs and foreign relations.

Ironically, the paper also seeks to put an end to the debate about TNI's current territorial system by stating that those calling for its abolition are denying the fact that TNI and the people are one and cannot be separated³⁷. To put it another way, TNI has still consistently perceived itself to be the guardian of national unity, development and cohesion. To borrow the words of Takashi Shiraishi, it reflects "TNI's self-image as the the irreplaceable backbone of the nation".³⁸

The above points, as some Indonesian civilian expert on military affairs argued, were counter-productive to one of the reform's goals, which is to demilitarize the nation as Indonesia march toward a strong civil society. Furthermore, this point will also disrupt a healthy civil-military relations which require the premise that military should obey the civilian control.³⁹ Many observers on Indonesian military frequently emphasized that if true democracy is to succeed in Indonesia, it will not be enough for the TNI to professionalize but also to accept a position truly subservient to the state.⁴⁰

However, the international environment/international community also play a significant role in the process of SSR in Indonesia. As Rizal Sukma and Edy Prasetyono argued that there are two roles international community can play in assisting SSR in Indonesia.⁴¹ First, international community can help to raise the aware-

³⁶With this concept, the military (TNI) has enabled to serve its socio-political function and to have an institutionalized role in the government.

³⁷Anak Agung Banyu Perwita, "Memahami Buku Putih Pertahanan RI 2003" [Understanding Indonesia's Defence White Paper 2003], *Kompas*, 26 May 2003.

³⁸As quoted from John Bradford, "The Indonesian Military As A professional Organization: Criteria and Ramifications for

Reform," Working Papers no. 73 (Singapore: Institute of Defence and Strategic Studies, 2005), p. 9.

³⁹This argument was the result of several discussions on TNI's reform in series of workshops in Jakarta organized by Indonesia's Working Group on Security Sector Reform-Pro Patria in which the writer was also a member of this working group.

⁴⁰See Bradford, "The Indonesian Military ...," 23.

⁴¹Sukma and Prasetyono, "Security Sector Reform ...," 33-34.

ness of the significance of SSR and the need for an objective civilian control of the military. Second, it can also help to provide financial and technical assistance to the security sector institutions, such as training and education programmes for the military and co-operation in areas of common interests in fighting terrorism.

The US resumption of the International Military Education and Training (IMET) program to Indonesia, which has been stated by Condoleezza Rice, US Secretary of State, was a clear example of the role of international actor in assisting the SSR process in Indonesia. The US decision to resume military education and training members of TNI was also a clear indicator that the US needs a broadened military cooperation with Indonesia to curb international terrorism.⁴² The George W. Bush administration has repeatedly stressed the importance of broadening post September 11 counter-terrorism cooperation with Indonesia, the world's largest Muslim nation, in dealing with terrorism.⁴³

The government, of course, welcomes this US policy shift to build stronger ties with Indonesia in the global fight against terrorism by saying Indonesia will be able to carry out

(military) reforms within the framework of democracy. The TNI also welcomed it as a positive move of the US's foreign and defence policy toward Indonesia. While Indonesia's Foreign Ministry spokesman, Marty Natalegawa stated that "... the resumption of the program represents an acknowledgment of the far-reaching democratic changes have take place in Indonesia in recent years".⁴⁴ Many analysts saw the the US decision to resume its military assistance to train Indonesia's military officers after 14 years of suspension of cooperation as the US' recognition of Indonesian government's efforts to reform the security sector, particularly the TNI.⁴⁵

On the other hand, human rights activists saw this as a setback for justice, human rights and democratic reform. John Miller, spokesman for the New York-based East Timor Action Network, argued that the US policy shift to Indonesia was a betrayal of their quests for justice and accountability.⁴⁶ This reaction is actually not really surprising mainly because the SSR process in Indonesia is not really going smoothly due to the various colliding interests of security sector institutions in Indonesia. Indeed, as

⁴²See "US plans to resume military training", *The Jakarta Post*, 28 February 2005.

⁴³*Ibid.*

⁴⁴See "IMET resumption seen as recognition of TNI reform", *The Jakarta Post*, 1 March 2005.

⁴⁵*Ibid.*

⁴⁶*Ibid.*

has been pointed out by Rizal Sukma and Edy Prasetyono, the success of security sector reform in Indonesia will be based on the strong triangular initiative and relations of civil society, the international community and the military and police themselves.

CONCLUDING REMARKS

As has been discussed above, the state/government's responses to terrorism can range from defeat or coercion to accommodation, directed at the individual or (militant) groups of people. Even though Indonesia is now experiencing internal reform, the above discussion shows that the fighting against terrorism as stated in the Defence White Paper is still the product of a political system in which the state (military) was stronger than the society. During the New Order period, national security policy issue was used as powerful instrument by which the state could mitigate the role of civil society.

More important, the making and the conduct of national security policy reflected the core values of the state, internal order and political stability. The indiscriminate use of force, for instance, will not only be counterproductive for fighting against terrorism and but will also endanger the process of democratization. To borrow the words of Rizal Sukma, a comprehensive national security strategy and pol-

icy should be based on four pillars (four D's): diplomacy, democracy, development, and defence.⁴⁷ Therefore, these four pillar should be designed as an integrated national security framework in achieving our national security interests.

The limited role and the low capacity of the wider (civilian) society were also shown in the policy making process of the national security policy, particularly the White Paper. As has been argued above, it comes as no surprise considering the lack of political will of the military, the civilians' lack of knowledge on security affairs and more important, the domination of the TNI military views and interests to security related issues such as the war on terrorism. In addition, TNI should also have a stronger political will in involving wider society in the making of security policies, including policies in fighting terrorism.

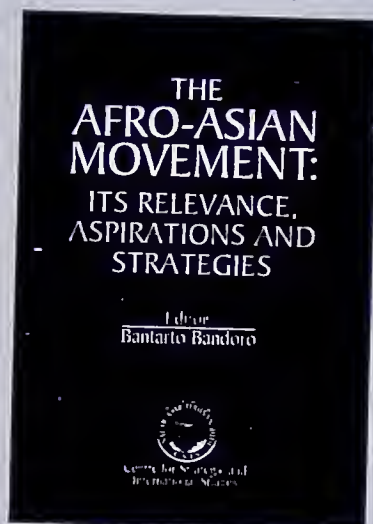
However, the white paper provides a rare glimpse into the thinking of the member of the society who are in charge of national security. The globalization of democratic institutions has forced many developing countries, including Indonesia to initiate the implementation of SSR. Of course, SSR is not the end of democratization but it

⁴⁷See Rizal Sukma, "War Will Never Solve Our Problems," In *The Jakarta Post*, 21 March 2005.

is rather a process that needs to be controlled not only by the state but by all elements of society toward a more democratic society. The significant lessons that we could learn from this glimpse is quite disturbing for

the pace of internal reform and for our march toward democracy and a stronger civil society. As a result, Indonesia has still a long way to go in implementing a more effective SSR and becoming a more democratic country.

THE AFRO-ASIAN MOVEMENT: ITS RELEVANCE, ASPIRATIONS AND STRATEGIES



Edited by: Bantarto Bandoro

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In line with the jubilee of the Asia-Africa Movement to be celebrated in Bandung 24 April 2005, this book presents papers discussing the Movement's relevance, aspiration, and strategies. With the rise of globalization, it is considered necessary for the member states of the Asia-Africa Movement to take greater participation in solving world problems and strengthening global peace. New and fresher strategies aimed at promoting peace, prosperity, and progress of the two continents are also required for the Movement to be relevant.

This compilation consists of 8 papers dealing with issues on among others: the relevance of the Asia-Africa Movement; the validity of the Bandung Spirit; the effect of current changes in world politics on the Movement's stand; the strategic partnership between the two continents; contribution of the two regions' common perceptions to the Movement's aspiration; collective responsibilities among the Movement's member countries in exploring and implementing concrete steps to propel economic growth and development; and, the long-term challenges to the Movement.

The publication of this compilation is intended for academicians dealing with international relations in general, and for those who are interested in knowing and understanding the latest development of the Asia-Africa Movement in particular.

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The Impact of Decentralization on Cluster Industry

Kacung Marijan

INTRODUCTION

AS cluster industries are understood as sectoral industries in particular regions (Harrison 1992; Llobrera *et al.* 2000; Markusen 1996; Park and Markusen 1995; Schmitz and Nadvi 1999), promoting cluster industries cannot be separated from the perspective of central and local government relations. This article attempts to view cluster policies from this perspective. It examines the extent to which the shifts of power, authority and responsibility from the central government to the sub-national governments affect national policy on cluster industries.

CENTRAL AND LOCAL GOVERNMENT RELATIONS IN INDONESIA

Political factors played a key role in influencing centralization and decentralization trends in Indonesia. Centralization occurred between the last decade of the Soekarno Government and the entire New Order when the regime tightened political participation

in order to maintain the hegemonic power of the regime (Jackson 1978; MacIntyre 1991). The central government controlled regions with a view to avoid local rebellions and maintain the unity of territories. Centralization during the New Order, for example, featured excessive power, authority and responsibility of the central government. As a consequence, sub-national governments were in a peripheral position and predominantly only functioned to implement the central government's policies. Decentralization was adopted after the fall of the New Order, as part of the democratization process.

In the early stages of the New Order an attempt was made to implement an administrative decentralization policy, as enacted in Law No. 5/1974 on the Basics of Local Government. This policy applied three principles, namely decentralization of responsibilities to autonomous provincial and local governments, deconcentration of activities to regional offices of central ministries and co-administration

in which provincial and local governments carried out activities on behalf of the central government (Devas 1997: 353-54).¹

Its implementation, however, did not work properly as indicated by the existence of the highly centralized relationships between central and local government. Three circumstances were responsible for such practice. First, the central government strongly influenced the policies of the sub-national governments through the branches of technical departments, namely *Kandep* (*Kantor Departemen*) at the local level and *Kanwil* (*Kantor Wilayah*) at the provincial level. Second, financially the sub-national governments were highly dependent on the central government (Davey 1989; Devas 1989; MacAndrews 1986), through grants for routine expenditure, INPRES² grants

for general development expenditure, and for specific sectors of development, and the Subsidy for Autonomous Regions (*Subsidi Daerah Otonom/SDO*). Finally, the sub-national governments were politically dependent on the central government, given the fact that governors and head of districts/mayors were all appointed by the central government.³

³Constraints on the implementation of the decentralization policy during the New Order government largely came from central government, indicated by its reluctance to transfer power, authority and responsibility through the slow-down in the formulation of regulations to implement Law No 5 of 1974. Almost two decades after the promulgation of Law No. 5/1974 only 60% of regulations to support this policy had been issued (Halligan and Turner 1995, 57; Rohdewohld 1995, 58). The most important regulation was *Peraturan Pemerintah* (PP - government regulation) No. 45 of 1992 that regulated these government affairs, which were supposed to be transferred and the mechanisms to implement the decentralization policy. Based on this PPP, in 1995 the central government decided to implement decentralization in only 26 selected districts of the 26 provinces, which was intended to look at the extent to which local government was able to implement decentralization. The implementation of pilot area programs did not work properly. The process of transferring responsibilities was complicated. For example, the transfer of responsibilities from central government was supposed to be carried through the Decision of Ministerial Letter (*Surat Keputusan Menteri*) but in fact it was done through the Government Regulation/PP (Sanyoto 1995, 191). In addition, in their study in Banyumas, one of the pilot projects, Susanto and Sukadi (1998) found that transfer of responsibilities were not followed by the transfer of financial resources. As a result, there was no significant difference in financial cap-

¹Based on these three principles, the Indonesian territories were divided into two types, namely the administrative areas (*wilayah*) and autonomous regions (*daerah otonomi*) (Rohdewohld 1995). The administrative areas consisted of provinces, districts/municipalities, sub-districts, and villages. All of them were administratively integrated, and vertically in command, from the President as head executive of the state to the head of the villages. The autonomous regions covered provincial and district/municipal levels. But as stated in Article 11 Law No.5/1974, regional autonomy was emphasized at the district/municipal level.

²*Instruksi Presiden* (INPRES) was initially launched in 1969 as policy for development projects, especially in fulfilling basic needs, such as the development of roads and primary schools.

Central and local government relations changed significantly after the post-Soeharto government issued the 1999 decentralization policy. This policy functioned as a 'Big Bang' for Indonesia, which changed from being one of the most centralized countries to one of the most decentralized countries in the world. It was the most comprehensive decentralization policy ever introduced in Indonesia, covering administrative, fiscal and political decentralization. As Syarif and Antlove (2004, 266) have pointed out, it is 'perhaps the most radical decentralization policies anywhere in the world during the last fifty years'.

Under the 1999 decentralization policy, most government affairs were devolved to the sub-national governments, especially to the district level where regional autonomy was emphasized. However, central government did not lose all of its responsibilities. Government Regulation (PP) No. 25/2000 provided detailed functions of central and provincial government over those delegated government affairs. In addition, the central gov-

ernment transferred staff, assets and financial resources. More than two million civil servants and 16,000 assets, such as schools and hospitals (Bell 2003, 122) were transferred to sub-national governments in 2001.

Furthermore, Law No. 25/1999 regulated intergovernmental transfers, consisting of revenue sharing, general allocation fund (*Dana Alokasi Umum/DAU*) and special allocation fund (*Dana Alokasi Khusus/DAK*). The revenue sharing comprises natural resource revenue sharing and tax revenue sharing. In natural resource revenue sharing, the central government still holds most revenues from oil and LNG (liquefied natural gas), 70% and 80% respectively. But for mining, forestry and fisheries, the central government only receives 20% because most revenue goes to the local governments that produce these natural resources. The percentage for local governments is bigger than previously when 100% of oil and LNG royalties, 55% of revenue from resources provision and 30% of revenue from land rent in forestry went to the central government (Jaya 2002, 45).

acity before and after implementation of the pilot project. Moreover, even though most government affairs were transferred, most decision-making processes were still held by the central government through its technical departments (Mokhsen 2003, 168). As a consequence, until the fall of the Soeharto Government in May 1999, central and local government relations were dominated by central government.

In regard to tax revenue sharing, the central government still receives majority revenues from personal income tax in which local governments only gain 12%. But for revenue property tax and land transfer fee local government receives 64.8% and 64% respectively.

The DAU basically is a single block grant function, substituting SDO (Brodjonegoro 2003; Damuri 2003; Fane 2003; Silver *et al.* 2001). The DAU provides more opportunities for regions to use the grant based on their needs, as well as being an instrument to overcome problems of fiscal imbalances among the regions as a result of revenue sharing. Law No. 25/1999 states that at least 25% of central government's domestic revenues must be allocated to DAU. Of this amount, 10% goes to the province and the rest goes to the district/municipality.

The DAK is a specific grant, intended to finance special needs as national priorities, or needs which are not covered by the DAU. They are projects that have large spill-over effects across the regions and projects that promote national priorities at regions (Usui and Alisjahbana 2003, 9). The DAK funds come from the national budget and reforestation revenue.

Moreover, politically, the 1999 decentralization policy provided more autonomy to the regions, where most decision-making processes were transferred to sub-national government. The authority to elect governors, the *Bupati/Wali Kota*, for example, is in the hands of the sub-national parliaments.

The above transfers had changed central and local government relations; the relations of their institutions have become more indirect. Through such

transfers, the sub-national governments have more power and authority in formulating and implementing policies, including those that promote cluster industries.

INDUSTRIALIZATION AND INDUSTRIAL POLICY

Industrialization in Indonesia was initiated during the Dutch colonial period (Siahaan 1996), especially after the Dutch introduced the cultivation system in the 1830s (Maddison 1989). During this period some industries, such as food and beverages, textiles and cigarettes were founded. However, Pangestu and Sato (1997, xi) argue that modern industrialization in Indonesia only started when President Soeharto took power in the mid-1960s. Since this time a huge structural change in the economy has taken place. In the mid-1960s, the sectoral share of GDP was dominated by the agricultural sector that accounted for 53%. This share dropped to 19% in the early 1990s. In contrast, the contribution of the manufacturing industrial sector increased significantly, from 8% in the mid-1960s to 24% in 1995 (Aswicahyono 1997, 2; Hill 2000, 5).

The fact that the Indonesian government has deliberately undertaken industrialization supports the argument that industrial policy has contributed positively to the industrial sector (Amsden 1989; Blais 1986; Chang 2003; Cow-

ling *et. al.* 1999; Johnson 1982; Johnson 1998; Leftwich 1995; Poot *et al.* 1990; Wade 1990). Johnson (1998, 7) points out that industrial policy can be negative if it results in 'distortions, disincentives, and inequalities that result from uncoordinated public actions that benefit or restrain one segment of the economy at the expense of another'. However, this only appears to be the case if industrial policy is looted at solely as a high intervention of government to the economy. In fact, as Johnson himself emphasizes, industrial policy covers 'the activities of governments that are intended to develop or retrench various industries in a national economy in order to maintain global competitiveness' (Johnson 1998, 7). This leads to an understanding that industrial policy means not only the way for government intervenes in the economy, especially at the macro level, but also comprises structural adjustment policies for a better industrial climate. In other words, industrial policy might be different and change (Blais 1986; Chang 2003; Neumann 1990), moving from emphasizing sectoral policy to horizontal policy (Cowing *et. al.* 1999, 18).

During the New Order industrial policy makers did not adhere strictly to any particular strategies but operated on the basis of pragmatic considerations (Pangestu 1996b; Sadli 1988), varying from one type to another. These pragmatic considerations were

particularly related to the financial capability of government and the interest to adjust the international market. That is why, during the early years of the New Order, the policy of fostering industrialization was pro-market, while during the early 1970s and early 1980s it tended to return to the pro-state policy, as happened during the last decade of the Soekarno Government (Bird 1999; Chalmers 1997b; Noer 1985; Ramli 1992; Robison 1986; Simandjuntak 1994; Sjahrir 1986). However, the pro-market strategy was again adopted later (Robison and Rosser 1998; Rosser 2002). Generally, industrial policy in Indonesia can be seen as based on the market orientation of industrial products, namely the import substitution industrialization (ISI) and the export orientation of industrialization (EOI).

Bruton (1989, 1602) defines ISI 'as a development strategy that seeks to accomplish both of these objectives: to learn from, and in general gain from, the rich countries, and at the same time, to protect the domestic economy that the society can find its own way...'. In the short term, it emphasized strengthening industries of domestic consumption (Brohman 1996, 53; Rapley 1996, 23) and aimed at nurturing the entrepreneurial talent of domestic industrialists (McVey 1992, 11). This strategy was undertaken to reduce external dependency and to improve self-sufficiency. In achieving this stra-

tegy, the state played an important role, such as through its state-owned enterprises and regulation.⁴

The New Order adopted the ISI between the 1970s and early 1980s. In addition to strengthening the national industry this strategy was intended to fulfil the needs of the people, especially with regard to imported consumption goods. During the first and second *Repelita* (Five Yearly Development Plan) priority was given to industries that support the agricultural sectors, such as fertiliser and agricultural tools, and industries that support the development of infrastructure, such as cement and steel, and small industries and handicrafts (*Deperindag* 1993, 8).

During the implementation of the ISI, the manufacturing sector grew very rapidly, 15.2% per annum between 1971 and 1980 (Poot *et. al.* 1990, 43). However, the very rapid growth of the manufacturing sector was characterized by inefficiency (Hill 1998, 28).

⁴Late development theory seems to support the ISI. Drawing from the work of Alexander Gerschenkron on 'Economic Backwardness' (Gerschenkron 1962), the late development theory argues that the state in less developed countries might take part actively in the economy in order to catch up to the industrialized countries (Wade 1990; Weiss and Hobson 1995). This theory views many industries in less developed countries as infant industries, therefore based on solely market mechanism they cannot compete with mature industries in developed countries properly.

Most industries were concentrated on fulfilling domestic market and their growth was partly fuelled by protection policy (Basri 2001).

Meanwhile, the EOI emerged as an alternative for the ISI.⁵ Rooted in the neo-classical economic tradition, the EOI is more concerned with the free market mechanism for the industrialization process, encouraging competition to achieve efficiency and innovation within industry and limiting state intervention. In addition, the EOI was to avoid the weakness of the ISI which caused inefficiency, high prices and less competitiveness of products in the international market (Balassa 1989). Furthermore, unlike the ISI that emphasized its strategy on strengthening industries for domestic consumption, the EOI encourages outward looking export-oriented industries.⁶ In apply-

⁵The Indonesian government has applied the EOI strategy since the early 1980s. The fall of oil prices in the international market resulted in the decline of state revenues from oil. This encouraged the government to institute a program of enhancing non-oil exports and to consider the ISI strategy no longer applicable. In addition to high dependency on state financial capacity, the ISI in fact needed huge purchasing power in consumers. In contrast, reducing oil revenue meant a decrease of state capacity. At the same time, purchasing power was still limited due to the low income per capita of Indonesian people.

⁶This strategy is based on the fact that the market for industries in developing countries is limited because the purchasing power of people is low. In addition, the domestic industries were highly dependent on the state for the provision of subsidies and protection from overseas industries.

ing the EOI, the Indonesian government has used the 'strategic retreat' (MacIntyre 1994, 254) in which the government has attempted to reduce its intervention into the market.

As the EOI was applied to strengthen the non-oil and gas manufacturing sectors, these sectors grew rapidly. Between 1985 and 1997, for example, the growth of the manufacturing sector was about 10% annually (Dhanani 2000, 2). However, four years prior to the economic crisis in 1997, the growth of the manufacturing sector started to slow down to 7% annually. Dhanani argues that this happened because of 'shallow export-led industrialization' that resulted in the gap between imported manufacturing goods and exported manufacturing goods. Many industries were heavily dependent on imported components and machineries. Nevertheless, generally, during the New Order was the EOI able to continue the growth of the industrial sector as happened during implementation of the ISI. The post-Soeharto government has continued to apply the EOI with an outward-looking orientation. However, due to complicated political and economic problems, the growth of the industrial sector between 1997 and the early 2000s was stagnant.

The application of both the ISI and EOI strategies in Indonesia was not rigid. The government applied a pragmatic approach or what Chalmers (1997a: 22) called an 'integrationist ap-

proach'. For instance, besides supporting the indigenous industries, the government used foreign capital. The industries themselves were not merely intended to fulfil the demands of domestic consumers, but also export to other countries. In other words, the implementation of industrial policy has considered the financial capability of government and condition of the market.

SMALL-SCALE INDUSTRIES AND CLUSTER INDUSTRIES

The modern industrialization that began in the 1960s affected the structure of industry in Indonesia. Many newcomers emerged. This resulted in the dominance of cottage and small-scale enterprises (CSSEs).⁷ Table 1 illustrates that the unit number of large and medium industries between 2000 and 2003 was relatively small compared to the unit number of household and small industries.

In addition, as 'economic activity tends to cluster' (Boadway et al. 2004, 623) many CSSEs—especially those at the same sector—are clustered natur-

⁷The Indonesian central bureau of statistic (CBS) considers cottage enterprise as household enterprise with less than 5 employees. While small-scale enterprise (SSE) is defined as enterprise that employs labour between 5 and 19 people. However, the term SSE is sometimes used for all industries with less than 19 employees, including cottage enterprises.

Table 1

THE NUMBER OF ESTABLISHMENTS IN INDONESIA, 2000-2003

Type of Establishment	Year			
	2000	2001	2002	2003
Household	2,358,616	2,307,562	2,490,118	2,672,864
Small	240,088	230,721	238,582	255,144
Large and Medium	22,174	21,396	21,146	21,126

Source: CBS, *Statistical Year Book of Indonesia* 2002 and 2003.

ally.⁸ Most clusters emerge spontaneously, stimulated by the abundance of raw materials and skilled workers (Klapwijk 1997; Poot et al. 1990; Sandee 1995; Tambunan 2000; Weijland 1999). Subsequently cluster industries also produce other goods, for example, clothes products, such as *batik* clusters in some parts of Java, *songket* (hand-made woven clothes) in some parts of Sumatera; craft products from silver and leather; and other products such as shoes, bags and suitcases, and metal products. In addition, their products are not only marketed for the lower income group in rural areas but also expanded to people in urban areas, including middle and high-income groups.

⁸Theoretically, the argument is that sectoral industries based in one geographic area receive benefits from their geographic proximity, such as it is easier to get raw materials, labour and marketing, while such benefits are rarely received by dispersed industries. Besides their ability to create competition and cooperation among individual firms, cluster industries may reduce transaction costs, generate specialization and facilitate joint actions to remove constraints faced by industries.

Most clusters are located in Central Java Province. Of the 5,715 clusters in Java in 1998, 53.6% were in central Java. This percentage is equivalent to 25.2% of total clusters in Indonesia. Weijland has estimated that more than 40% of cluster industries in Indonesia are located in Central Java Province (1999, 15-18). This estimation is supported by other data. For example, Klapwijk (1997, 45) found that there were at least 4,400 *sentra industri* in Central Java in 1989, where 90.9% of them were classified as rural industry clusters.

THE IMPLEMENTATION OF CLUSTER POLICIES IN THE DE-CENTRALIZATION ERA

The beginning of year 2000 witnessed the resurgence of the cluster approach in promoting SMEs among policy makers. This was not a new phenomenon because it had already happened during the New Order. However, the economic and political contexts are different. Economically, during the New Order, the resurgence was mainly encouraged by the fortunes of government in receiving more re-

venues from oil. In contrast, the recent resurgence has been stimulated by the economic crisis, which saw government revenues decline. The cluster approach has been selected as a strategy to alleviate the crisis because cluster industries are mostly dominated by SMEs (Berry *et. al.* 2001; Tambunan 2000; van Diermen and Gani 2001), which have been able to survive during the critical economic crisis (Sandee *et. al.* 2000; Sato 2000b). During the New Order the sub-national governments' only role was to implement cluster policies. Currently the central government cannot easily ask the sub-national governments to implement cluster policies because most responsibilities of the industrial sector have been devolved. Apart from these differences, the resurgence of the cluster approach is interesting given the failure of this approach in the past.⁹

Even though most industrial responsibilities were transferred to local government, surprisingly, as illustrated by the role of the Department of Trade

and Industry (known as *Indag*), the State Ministry for Co-operatives and the Development of Small and Medium Entrepreneurs (*Menegkop*) and the BI, the role of central government to promote clusters is still very large. For instance, the central government is concerned with operational policies in promoting clusters, such as providing technical and financial assistance. In addition, as illustrated below, the three central government institutions tend to work separately.

PROMOTING CLUSTER INDUSTRIES

This sub-section examines the attempts of the Department of *Indag* to promote cluster industries after the implementation of the 1999 decentralization policy. These attempts are excessive considering most responsibilities in the industrial sector were transferred to the sub-national governments.

The implementation of the 1999 decentralization policy resulted in a considerable change within the organization of the Department of *Indag* given that most of its responsibilities, and all of its agencies, staff and assets at provincial and district/municipal level were transferred to the sub-national governments. In addition, most provincial and local governments established their own trade and industry agency, namely *Dinas Perindustrian dan Perdagangan (Dinas Indag)*, but there is no hierarchical and com-

⁹Extrapolating from discussion with some policy makers it seems that post-Suharto governments supported the resurgence for two reasons. First, the cluster approach has been internationally recognised as an important instrument for promoting SMEs (Park and Markusen 1995; Schmitz and Musyck 1994; Schmitz and Nadvi 1999). Second, cluster industries which are dominated by CSSEs have absorbed huge labour forces. Thus, fostering cluster industries may function as an engine for economic growth.

mand link between *Dinas Indag* and the Department of *Indag*.

However, the Department of *Indag* still plays strategic roles in the affairs of trade and industry. PP No. 25/2000 authorizes ten strategic responsibilities for *Indag*,¹⁰ but they are not directly related to the function of promoting clusters, which was transferred to local government. However, *Indag* did not lose its interest in promoting clusters. One of the sixteen targets of industrial and trade policy of *Indag* in 2001 illustrates this trend, saying that 'the emergence of industrial development whose competitive advantage is based on comparative advantage, referring to the development of cluster industry for the strength and balance of industrial structure' (*Deperindag* 2001: 16).

Indag views the cluster approach as a strategic way to transfer a comparative advantage of many industries in Indonesia into a competitive advantage in order to foster the indus-

trial sector to be able to compete and survive in the global market. In addition, the cluster approach was adopted as an important part of the industrial policy because it is believed to be able to create linkage patterns among industry, horizontally and vertically (*Deperindag* 2001, 18).

The Indonesian government asked the Japanese government to assist in formulating and implementing policies on cluster industries.¹¹ In this project *Indag* functioned as a key player. Therefore, the program of strengthening cluster industries seems to be the program of *Indag*.

The project was divided into three main steps. The first step was an in depth study of ten samples of clusters, classified into three categories. First is

¹⁰They are: (1) to determine the policy for facilitation, development and supervision of commodity measures trade, (2) to determine the national standards for goods and services in the field of industry and trade, (3) to regulate business competition, (4) to determine consumers protection guidelines, (5) to regulate the traffic of domestic goods and services, (6) to regulate bounded areas, (7) to manage metrology, (8) to determine the industrial standard and certain products that are related to security, public safety, health, environment and moral, (9) to determine the development guidelines of storage systems, and (10) to facilitate the distribution activities of main staple supplies.

¹¹This request is part of the long-term planning program in cooperation between the Indonesian the Japanese governments in promotion of SMEs in Indonesia. In November 1999, President Abdurrahman Wahid requested the Ministry of International Trade and Industry of the Japanese government to send its experts to help the Indonesian government in promoting SMEs. The result is a document written by the Japanese team headed by Shujiro Urata (2000). The reasons for requesting this assistance related to two facts. First, Japan is main investor for development projects in Indonesia. Second, Japan has experience in formulating and implementing policy for promoting cluster industries, in particular dealing with the sub-contracting system between large industries and small industries (Hayashi 2002; Whittaker 1997; Yamawaki 2002). Therefore, it was assumed that Indonesia could learn much from such experience.

the metal and machinery component product clusters, which exist in Tegal, Sukabumi and Sidoarjo. Second is export market-oriented product clusters, which consist of Klaten-Srenan of Wooden Furniture, Hulu Sungai Utara-Amuntai of Rattan Furniture, Harau 50 Kota of Gums of Gambier and Garut of Vetiver Oil. The last category is domestic-oriented market product clusters, which cover Tanjung Baru of Farmtools, Mampang of Tofu and *Tempe* (fermented bean), and Kebumen of Bricks and Roof-tiles.

The second step was to select three clusters as pilot projects. The three selected clusters were assumed to represent of the three categories of clusters. They were the metalwork cluster of Ngingas Sidoarjo, the wooden furniture cluster of Srenan Klaten and the Brick sand Roof-tiles cluster of Kebumen.

The third step was transforming the three clusters from static cluster into dynamic cluster through three phases; namely the basic foundation, structural reform and cluster dynamism (JICA *et. al.* 2003, 3.1-3.4). The main activities of the basic foundation covered improving technical and business skill, promoting joint activities, and improving the quality of the products. The team has also attempted to reform clusters structurally by strengthening linkages among firms, both vertically and horizontally. Lastly, the team has encouraged the emergence of more

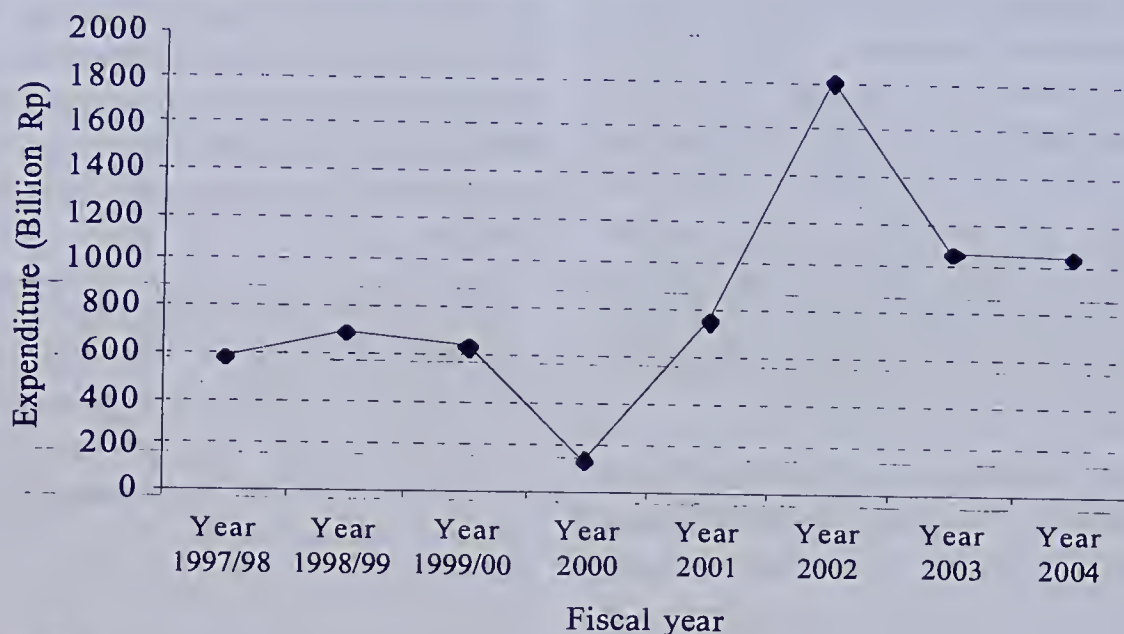
dynamic cluster industries. For example, the team has suggested the improvement of the association for metal work cluster of Ngingas and the wooden furniture cluster of Srenan. For the roof-tile cluster of Kebumen, the team has advised business people to diversify their products and to improve technical innovation for new products.

During the implementation of the pilot project, the team has attempted to overcome financial and non-financial problems. The team has been concerned with financial management and has paid attention to the strengthening of institutions, marketing, technology, research development and Business Development Service (BDS). Realising that the government cannot solve these problems alone, the team has been concerned with patterns of public-private partnership.

The results of these pilot projects will be the main reference for formulating strategic policy in promoting clusters. However, the implementation of such policy remains unclear because the responsibility in formulating and implementing policy on clusters is in the hands of local government. A senior officer in the Director General for Small and Medium Enterprises of *Indag* acknowledged this fact.¹²

¹²Interview with Agus T.W. in Jakarta on 19 September 2002.

Figure 1

CENTRAL GOVERNMENT EXPENDITURE IN THE INDUSTRIAL SECTOR,
1997/98-2004

Source: BI.

However, for him, this is not a big problem because *Indag* still maintains its cooperation with the sub-national governments' agencies for implementing its programs in the regions. For example, the study of ten cluster industries and the establishment of three pilot projects have been done through cooperation between the central government and ten districts. Formulating cluster policies are planned to be carried out in cooperation with sub-national governments.

The implementation of cluster policies is also affected by financial problems. As can be seen in Figure 1, the expenditure of the central government for the industrial sector on average

has increased significantly after implementing decentralization policy, that is, from Rp 589.5 billion in fiscal year 1997/98 to Rp 1,059.1 billion in fiscal year 2004. However, in terms of value, the increase was not significant when one considers the depreciation of the rupiah.¹³ In other words, the capacity of central government to support clusters financially is limited. One alternative is through cooperation with local government. The problem is that

¹³As a result of the economic and financial crisis, the value of the rupiah has depreciated significantly. Prior to the crisis, in May 1997, US\$1=Rp 2,415. At the peak of the crisis, in February 1998, US\$1=Rp 17,000. Currently, 1 US dollar is equivalent to Rp 9,250.

local governments also face financial difficulties. Another alternative is through public-private partnership programs. But prospect of this pattern remains unclear as many large enterprises have still not recovered from the crisis.

PROMOTING BDS AND MAP

The second central government institution that is concerned with supporting cluster industries is *Menekop*. Like *Indag*, *Menekop* lost most of its responsibilities and its agencies at provincial and district/municipal level after the implementation of decentralization. Its authority, now, is focused on strategic matters. In reality, however, *Menekop* has undertaken more operational responsibility through applying the cluster approach in supporting SMEs.

In formulating cluster policies, *Menekop* is concerned with both non-financial and financial problems of SMEs. For overcoming non-financial problems *Menekop* introduced BDS. BDS is widely recognised as an institutional arrangement to support clusters. International Labor Organization (ILO) defines it as 'a wide range of services used by entrepreneurs to help them operate and grow their business' (ILO 2000, 3). The BDS provides training, consultation and other services to overcome the internal constraints of enterprises, as well as prov-

iding marketing and information resources.

As *Menekop* believes that BDS plays an important role in supporting cluster industries, since 2001 *Menekop* has facilitated the establishment of BDS in some regions through public-private partnerships, and through providing Rp 50 million for the initial establishment of each BDS. A senior officer in *Menekop* explained that *Menekop* invited the private sector to cooperate in establishing the BDS.¹⁴ But, in fact, only NGO activists concerned with SMEs were interested in the project. During the fiscal year 2001, *Menekop* and NGOs founded 90 BDS (Soetrisno 2002, 31), and another 375 BDS in 2003. For the partnerships, the government uses an 'exit strategy',¹⁵ whereby the government is involved in the early stages, and later on the private sector (NGOs) is allowed to manage and develop the BDS. The operation of the BDS is based on a participatory approach and market mechanism principle.

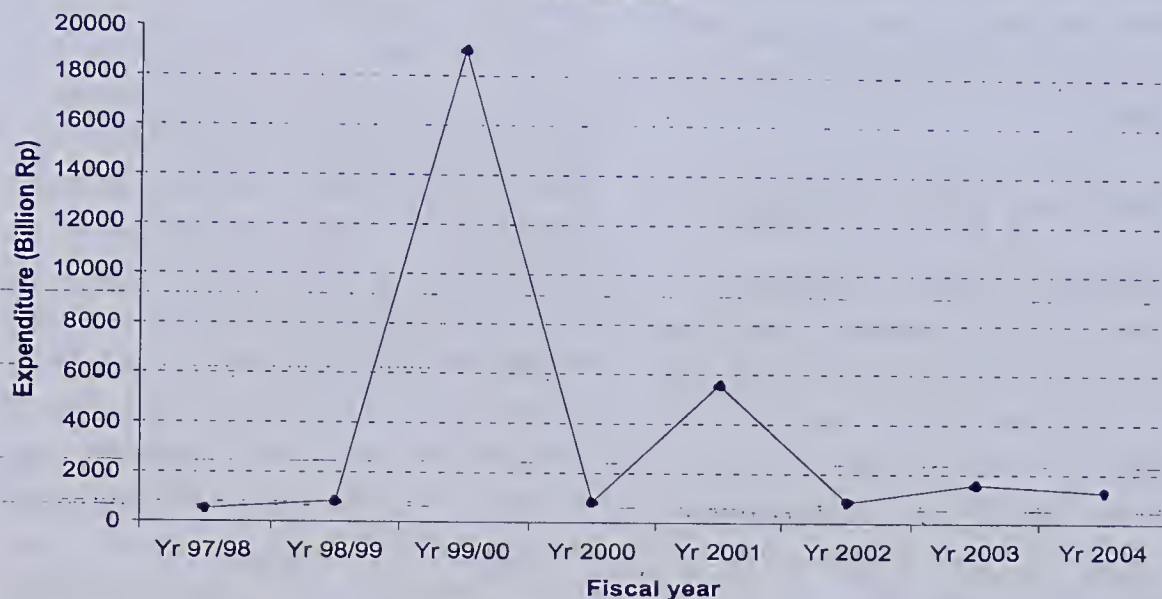
The BDS providers have established the BDS Association to create networks. In this way, they hope that any lack of particular expertise of one BDS can be handled by another (*Bisnis Indonesia* 2004a). The BDS also attempt to

¹⁴Interview with NS in Jakarta on 18 September 2002.

¹⁵Interview with NS in Jakarta on 18 September 2002.

Figure 2

**CENTRAL GOVERNMENT EXPENDITURE IN TRADE, DEVELOPMENT OF
NATIONAL ENTERPRISES, FINANCE AND COOPERATIVE SECTORS,
1997/98-2004**



Source: The Indonesian Government, *the National Budget (APBN)*, 1997-2004

cooperate with BUMNs. In East Java, for example, 30 BUMNs have committed to provide assistance. This is essentially a continuation of the Foster-Father program and the request that the BUMNs contribute 1-5% of their net profits to the SMEs.

In order to further overcome financial problems, *Menekop* has also introduced the strengthening capital program by providing Initial Capital and Equalization (MAP). *Menekop* classifies three types of clusters for the provision of MAP. Type A is provided with a MAP account for Rp 350 million, whereby each firm is given Rp 20 million maximum credit. Type is allocated Rp 250 million MAP and the maximum credit is Rp 15 million per

establishment. Type C receives Rp 150 million MAP allocation and each firm is given Rp 10 million maximum credit (*Bisnis Indonesia* 2004c). During the fiscal year 2001 *Menekop* spent Rp 39,6 billion. This funding increased to Rp 89,4 billion during fiscal year 2002. This funding covers 447 clusters in 32 provinces.

In the MAP program *Menekop* applies the idea of public-private partnership to co-operatives, where the function of government is more as an initiator for the program. Eventually the project will be transferred to the private sector. In addition to keeping the sustainability of the project, this strategy has been undertaken because *Menekop* realises that its fin-

ancial capacity is limited. As shown in Figure 2, government expenditure for trade, development of national enterprises, finance and co-operative sector slightly increased. However, this increase is not very great because the value of the rupiah currency depreciated following the financial crisis in the mid-1997.

Finally, in implementing its program in the field, *Menekop* has continuing cooperation with *Dinas Koperasi* and *UKM* at the local level. However, as happened in the past, the *Dinas* continues to implement policies.

BANK INDONESIA: LIBERATE CREDIT ACCESS

The third central government institution that is concerned with supporting cluster industries is the Bank Indonesia (BI). Despite its concern to liberate the provision of credits, the amount of KUK increased substantially after the 1997/98 economic crisis.

Following the crisis, there have been substantial changes in the provision of credit. The IMF strongly recommended the Indonesian government to liberalize the economy. In addition to carrying out privatization programs (Robison and Rosser 1998; Rosser 2002), the Indonesian government has lifted a number of regulations which were assumed to be barriers to the market. Providing concession credit for particular groups of businesses is considered to be one

of these barriers. In this regard, BI changed the regulation on KUK in 2001. Previously, it had been compulsory to provide 20% of total credits for KUK; it now becomes optional.¹⁶

Furthermore, based on Law No. 23/1999, the position of BI has been independent, apart from any intervention. Prior to this position, BI was not immune from political interests (Ali *et al.* 2003). The collapse of the banking sector during the economic crisis suggested that the policy of BI during the New Order was not purely based on professional banking considerations but to some extent based on political interests. Currently, BI cannot be easily influenced, including by government. For example, the government is committed to the provision of concession credit for small businesses; the government cannot force BI to launch this policy.

Interestingly, the commercial banks are still concerned with the provision of credit to small-scale enterprises (SSEs). Table 2 shows that between 2000 and 2003 the total number of KUK increased 64.4%. The change of regulation did not reduce the willingness of commercial banks to provide KUK. The fact that the SSEs were

¹⁶However, as stated in the BI regulation No. 3/2/PBI/2001, it is compulsory for commercial banks to let BI know about credits given to the SEs.

Table 2

**SMALL-SCALE CREDITS OUTSTANDING IN RUPIAH AND
FOREIGN CURRENCY OF COMMERCIAL BANKS BY ECONOMIC SECTORS
(IN BILLION RUPIAH)**

Sector	Year						
	1997	1998	1999	2000	2001	2002	2003
Agriculture	6,860.8	7,572.4	7,744	53,427.0	119,673	132,658	153,521.48
Mining	102.7	48.0	26	374.0	686	519	645.21
Industry	6,718.5	1,757.4	1,081	107.1	22,457	25,877	33,557.61
Trade	19,386.0	10,673.0	8,821	59,503.0	141,669	181,834	242,109.77
Services	11,600.5	5,628.7	3,409	26,168.0	60,762	75,133	109,954.77
Other	24,108.5	19,891.0	16,158	153,780.0	383,898	290,921	284,951.12
TOTAL	68,777.0	44,580.5	37,239	293,359.1	709,145	726,942	824,759.96

Source: http://www.bi.go.id/bank_indonesia_english/main/statistics/data.asp?head=30
(accessed 26 April 2004)

able to survive during the crisis has convinced the commercial banks to remain involved with KUK. In other words, SSEs are now considered to be a reasonable credit risk.

Most KUK have been allocated to trade and service sectors. The manufacturing industrial sector received a small proportion of the credit. In 1997 it received only 9.8% and this decreased to 4.2% in 2003. This is related to the fact that most SSEs are in the trade and services sector. However, these figures suggest that cluster industries in Indonesia still have constraints on receiving credit from commercial banks.

Even though the allocation of small credit increased over seven years, the capacity of SSEs to absorb the credit is below the portfolio. In January 2004, the Director General of Small and

Medium-Scale Industry of the Department of *Indag*, Agus T.W., confirmed that 'of Rp 45 trillion provided by the government, the SMEs were only able to absorb 20%, or Rp 10 trillion' (*Kompas* 2004). This is because SSEs could not fulfil the requirements regarding collateral and administrative procedures.

The BI has facilitated another program to support SMEs, called Financial Consultation for Bank's Partner (*Konsultasi Keuangan Mitra Bank/KKMB*). By early in 2004, the BI established KKMB in 11 provinces (*Bisnis Indonesia* 2004b). This program is similar to the program of BRI that established 18 centres for SMEs in 2003 (*Republika* 2004).

CONCLUSION

In fostering industrialization, the Indonesian government has applied a

pragmatic industrial policy, moving between the ISI and the EOI strategies. Government financial capability and interest in adjusting policy to the market have been important aspects of this pragmatism.

Indonesia has a long history in promoting CSSEs through the cluster approach. Considering that cluster industries are part of local economic performance, promoting cluster industries has involved central and local government relations. During the New Order, when government was centralized, most policies to promote clusters were generated by the central government. Implementation of the policies, however, involved sub-national governments and the private sector. In implementing technical assistance, for example, the central government de-concentrated this policy to *Kanwil* and *Kandep Indag*, and *Kanwil* and *Kandep* Co-operatives at provincial and district/municipal level. In addition, besides involving *Kanwil* and *Kandep Indag* and Co-operatives, in arranging financial assistance the central government involving the private sector. Furthermore, the sub-national governments and the private sector participated in implementing policy for the provision of infrastructure.

Changing the nature of central and local government relations during the post Soeharto government was supposed to reduce substantially the role of the central government in pro-

moting clusters. In reality, the central government has continued its efforts in promoting clusters.

Both before and after the implementation of the 1999 decentralization policy, the Indonesian government faced problems of coordination among institutions that participated in promoting cluster industries. These problems have not only been at the national level, for example, among the Department of *Indag*, *Menegkop*, BI and BUMNs, but also at their branches at sub-national governments, for example, between *Kandep Indag* and *Kandep* Co-operatives. After the implementation of the 1999 decentralization policy, *Menko Ekuin* attempted to coordinate all of these institutions participate in supporting clusters. However, many of the people and institutions at their various levels, still work separately.

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